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Legislative Audit Division

State of Montana

Report to the Legislature

December 2005

Federal Single Audit

For the Two Fiscal Years Ended June 30, 2005

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Montana Single Audit Report

This document is prepared in accordance with the federal Single Audit Act Amendments of 1996 and OMB Circular A-133. It contains the auditor's reports on Montana's basic financial statements and schedules of expenditures of federal awards for the fiscal years ended June 30, 2005, and 2004, as well as reports on internal controls and compliance, the schedule of findings and questioned costs, the corrective action plan, and the summary schedule of prior audit findings.

Direct resolution of federal issues to:
Single Audit Coordinator
Office of Budget and Program Planning
PO Box 200802
Helena MT 59620-0802
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Direct comments/inquiries to:
Legislative Audit Division
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FEDERAL SINGLE AUDIT

Montana's federal Single Audit is a biennial audit that completes the reporting requirements of the Single Audit Act Amendments of 1996, and the Office of Management and Budget (OMB) Circular A-133. The Single Audit Report is compiled from work performed by other annual or biennial individual agency audit engagements. Individual agency audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing these audits, the audit staff use standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office.

Government Auditing Standards, the Single Audit Act Amendments of 1996, and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. The Single Audit Report complies with these reporting requirements and is intended for distribution to federal grantor agencies. The individual agency audit reports are not intended to comply with these reporting requirements and are therefore not intended for distribution to federal grantor agencies.

Audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
PO Box 200802
Helena MT 59620-0802
Phone (406) 444-3616
http://www.discoveringmontana.com/budget/audit

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Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

December 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the state of Montana for the two fiscal years ended June 30, 2005. This document contains the independent auditor's reports on the state of Montana's basic financial statements for the fiscal years ended June 30, 2005 (page A-3), and June 30, 2004 (page B-3). The independent auditor's reports also address the reasonableness of the schedules of expenditures of federal awards in relation to the basic financial statements. This report also contains reports on the state of Montana's internal controls and compliance with federal and state laws and regulations (pages A-1, B-1, and C-1), a schedule of findings and questioned costs (pages C-3 through C-61), a corrective action plan (pages D-1 through D-12), and a summary schedule of prior audit findings (pages E-1 through E-7). The Single Audit was conducted in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The audit disclosed certain questioned costs and deficiencies, which are summarized in the schedule of findings and questioned costs. Agency management has responded to the audit findings, and the responses are included in the corrective action plan prepared by the Office of Budget and Program Planning. The status of findings previously reported in state of Montana Single Audit Reports for which continued reporting is required under OMB Circular A-133 is included in the summary schedule of prior audit findings, which was also prepared by the Office of Budget and Program Planning.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Legislative Audit Division

Federal Single Audit
For the Two Fiscal Years Ended June 30, 2005

Montana Single Audit Report

Members of the audit staff involved in this audit were Laurie Barrett, Jennifer Erdahl, Geri Hoffman, Cindy S. Jorgenson, Jim Manning, and Melissa Soldano.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the basic financial statements of the state of Montana as of and for the fiscal year ended June 30, 2005, and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

1. The Public Employees' Retirement Board manages eight defined benefit retirement systems. The Montana Constitution and state law require these systems be actuarially sound. The actuarial valuation as of July 1, 2005, indicates the Public Employees' Retirement System – Defined Benefit Retirement Plan, Sheriffs' Retirement System, and Game Wardens' and Peace Officers' Retirement System are not actuarially sound.

2. The Teachers' Retirement Board administers a defined benefit retirement system. The Montana Constitution requires this system to be actuarially sound. The actuarial valuation as of July 1, 2005, indicates the Teachers' Retirement System is not actuarially sound.

We also noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

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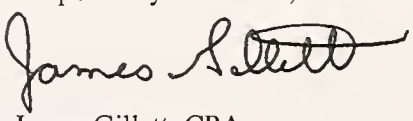
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended solely for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

November 23, 2005

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2005, which collectively comprise the state's basic financial statements, as follows:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet - Governmental Funds - to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
- Statement of Net Assets - Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
- Statement of Cash Flows - Proprietary Funds
- Statement of Fiduciary Net Assets - Fiduciary Funds
- Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
- Combining Statement of Net Assets - Component Units
- Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which represents 0.06 and 1.38 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Montana University System Self-Funded Workers' Compensation Program, which represents 0.06 and 0.12 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units which represent 10.90 and 5.64 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund and the aggregate remaining fund information of the state of Montana, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Budgetary Comparison Schedule, and the Pension Plan Information on pages A-5 through A-15, and A-96 through A-98, and A-99, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on pages A-100 through A-137 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

At July 1, 2005, four retirement systems, Public Employees' (PERS-DBRP), Teachers' (TRS), Game Wardens' and Peace Officers' (GWPORS) and Sheriffs' (SRS) retirement systems were not actuarially sound with an Unfunded Actuarially Accrued Liability (UAAL) totaling $522.6 million, $903.3 million, $5.5 million, and $10.9 million, respectively. The maximum UAAL to comply with the amortization period of 30 years at January 1, 2006, is $266.4 million for PERS-DBRP, $463 million for TRS, $4.3 million for GWPORS, and $(3.6) million for SRS. The negative $3.6 million for SRS indicates that the current employer and employee contributions do not cover the current costs of the system.

In accordance with *Government Auditing Standards*, we have issued our report dated November 23, 2005, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report, on page A-1, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

November 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights
The assets of the State exceeded its liabilities at the end of fiscal year 2005 by $5.4 billion (reported as net assets) compared with $4.6 billion at the end of fiscal year 2004. Of this amount, $421.4 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of $943.3 million compared with $874 million at fiscal year 2004.

Fund Highlights
As of the close of fiscal year 2005, the State's governmental funds reported combined ending fund balances of $2.7 billion compared with $2.3 billion at fiscal year 2004. Of this amount, $252.8 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of $2.4 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was $289.7 million compared with $132.9 million in fiscal year 2004, which is a increase of $156.8 million (or 118%).

The State's business-type activity funds reported net assets at the close of fiscal year 2005 in the amount of $266.9 million compared with the fiscal year-end 2004 net assets of $236.3 million. $240.5 million of the business-type activity fund equity was restricted at fiscal year-end 2005 leaving an unrestricted balance of $16.7 million. This represents a $1.8 million (or 12.1%) increase from the fiscal year-end 2004 business-type activity fund unrestricted net asset balance of $14.9 million.

Long-term Debt
The State's total bonds and notes payable for governmental activities increased by $116.5 million, from $305.1 million in fiscal year 2004 to $421.6 million (or 38.2%) in fiscal year 2005.

Business-type activities reported bonds and notes payable of $5.2 million at fiscal year-end 2005. This represents a decrease of $2.7 million (or 34.2%) over the fiscal year-end 2004 reported amount of $7.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules). These components are described below:

Basic Financial Statements
The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements and combining major component unit financial statements.* These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements
The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using

the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

Business-type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

Fund Financial Statements (Reporting the State's Major Funds)
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund,

the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds Financial Statements – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. Internal Service Fund reports activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the accrual basis of accounting.

Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

Required Supplementary Information
The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position improved over the last fiscal year. This improvement was caused by the combination of budgetary cuts enacted in the previous legislative session, stronger than expected statewide economic performance, an almost non-existent 2005 fire season, and the receipt of the federal Jobs and Growth Tax Relief Reconciliation Act of 2004 (JGTRRA).

Net Assets
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled $5.4 billion at the end of fiscal year 2005. Net assets of the governmental activities increased $761.6 million (or 17.6%), and business-type activities had a $30.6 million (or 12.9%) increase.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Net Assets
As of Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2005	2004	2005	2004	2005
Current and other assets	$2,952,118	$3,407,149	$350,552	$373,018	$3,302,670	$3,780,167
Capital assets	2,409,128	2,805,658	8,925	9,670	2,418,053	2,815,328
Total assets	5,361,246	6,212,807	359,477	382,688	5,720,723	6,595,495
Long-term liabilities	336,669	444,855	9,896	7,150	346,565	452,005
Other liabilities	693,483	675,235	113,274	108,682	806,757	783,917
Total liabilities	1,030,152	1,120,090	123,170	115,832	1,153,322	1,235,922
Invested in capital assets, net of related debt	2,250,177	2,528,808	8,925	9,670	2,259,102	2,538,478
Restricted	1,858,088	2,159,185	212,473	240,514	2,070,561	2,399,699
Unrestricted	222,829	404,724	14,909	16,672	237,738	421,396
Total net assets	$4,331,094	$5,092,717	$236,307	$266,856	$4,567,401	$5,359,573

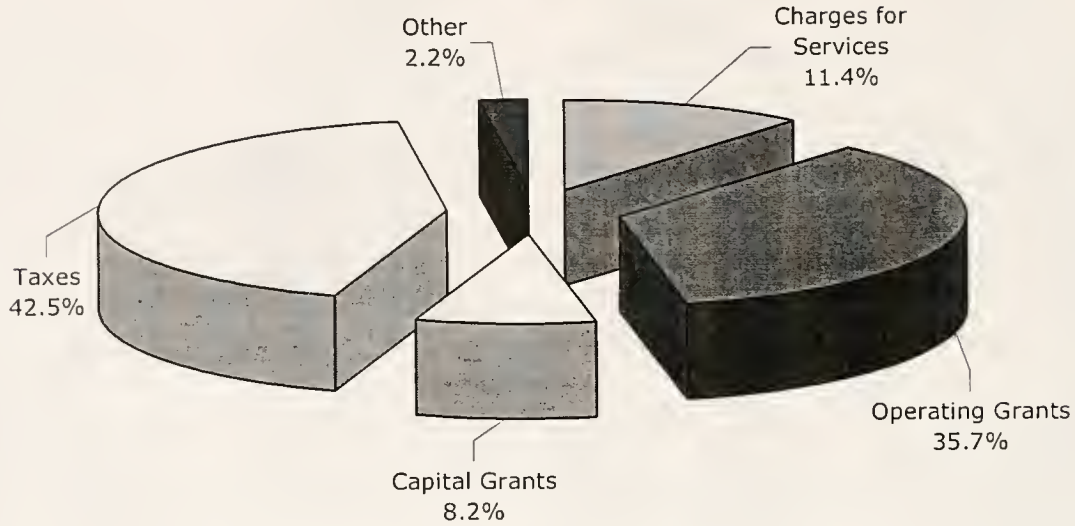
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2005	2004	2005	2004	2005
Revenues:						
Program revenues						
Charges for services	$ 472,445	$ 443,984	$220,903	$236,365	$ 693,348	$ 680,349
Operating grants	1,271,515	1,391,026	55,487	58,433	1,327,002	1,449,459
Capital grants	290,045	319,434	177	159	290,222	319,593
General revenues						
Taxes	1,436,571	1,657,668	14,621	15,624	1,451,192	1,673,292
Other	64,531	85,497	10,275	3,135	74,806	88,630
Total revenues	3,535,107	3,897,609	301,463	313,716	3,836,570	4,211,323
Expenses:						
General government	285,781	305,819	-	-	285,781	305,819
Public safety/corrections	227,786	258,610	-	-	227,786	258,610
Transportation	400,034	281,074	-	-	400,034	281,074
Health/social services	1,109,045	1,182,281	-	-	1,109,045	1,182,281
Educational/cultural	874,846	900,542	-	-	874,846	900,542
Resource/rec/environ	258,057	197,539	-	-	258,057	197,539
Econ dev/assistance	144,687	144,777	-	-	144,687	144,777
Interest on long-term debt	15,088	14,375	-	-	15,088	14,375
Unemployment Insurance	-	-	93,882	75,291	93,882	75,291
Liquor Stores	-	-	42,827	45,503	42,827	45,503
State Lottery	-	-	28,669	27,681	28,669	27,681
Economic Dev Bonds	-	-	2,197	2,630	2,197	2,630
Hail Insurance	-	-	1,949	3,153	1,949	3,153
Gen Govt Services	-	-	48,395	50,329	48,395	50,329
Prison Funds	-	-	4,244	5,268	4,244	5,268
MUS Group Insurance	-	-	39,690	40,524	39,690	40,524
MUS Workers Comp	-	-	2,552	2,842	2,552	2,842
Total expenses	3,315,324	3,285,017	264,405	253,221	3,579,729	3,538,238
Increase (decrease) in net assets before transfers	219,783	612,592	37,058	60,495	256,841	673,085
Transfers	30,812	29,871	(30,812)	(29,871)	-	-
Change in net assets	250,595	642,463	6,246	30,624	256,841	673,085
Net assets, beg of year (restated)	4,080,499	4,450,254	230,061	236,232	4,310,560	4,686,488
Net assets, end of year	$4,331,094	$5,092,717	$236,307	$266,856	$4,567,401	$5,359,573

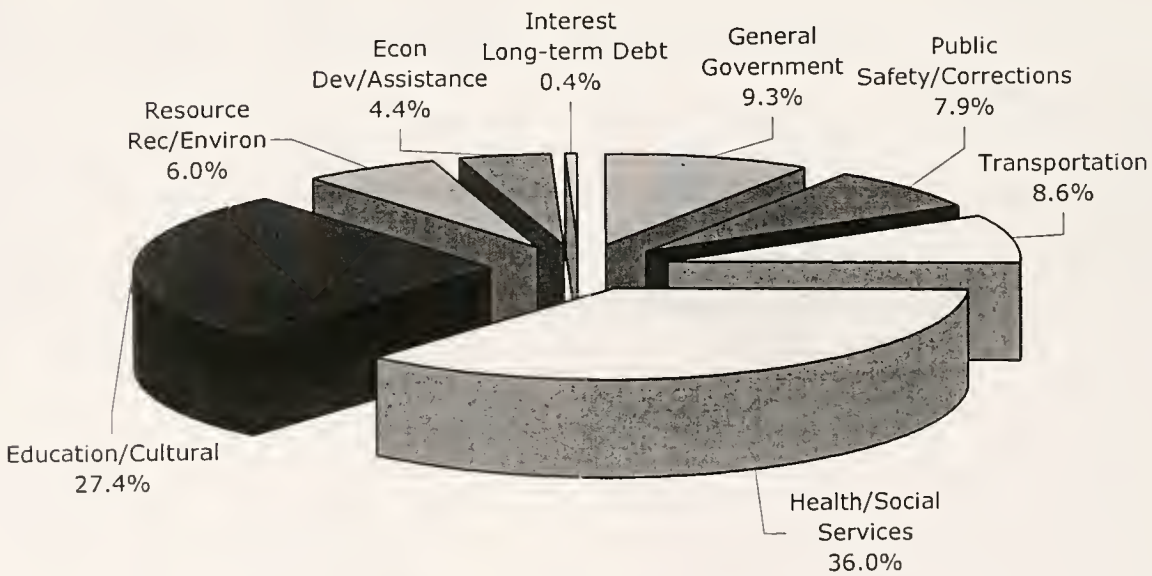
Governmental Activities
The following chart depicts revenues of the governmental activities for the fiscal year:

Revenues - Governmental Activities
Fiscal Year Ended June 30, 2005

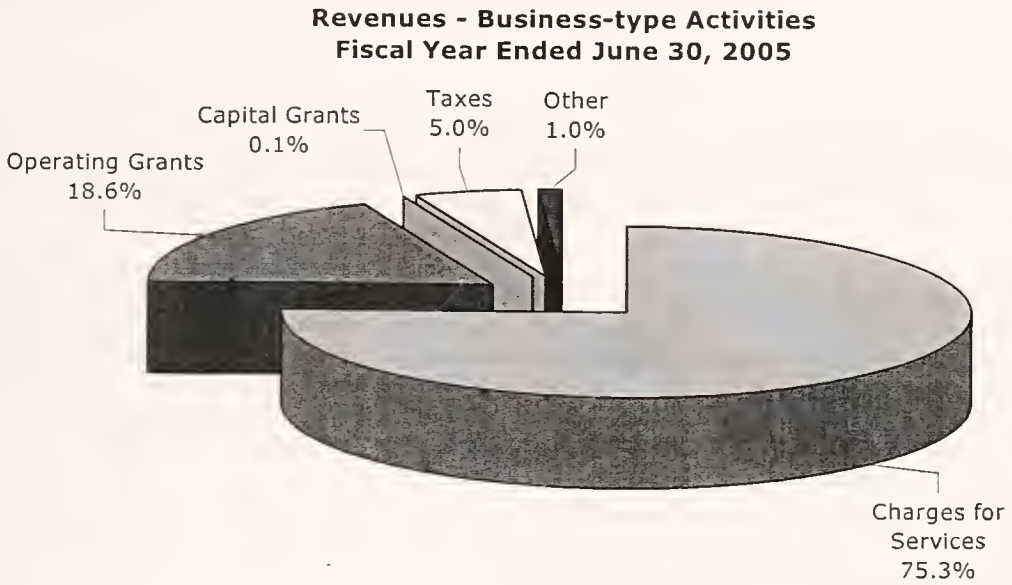


The following chart depicts expenses of the governmental activities for the fiscal year:

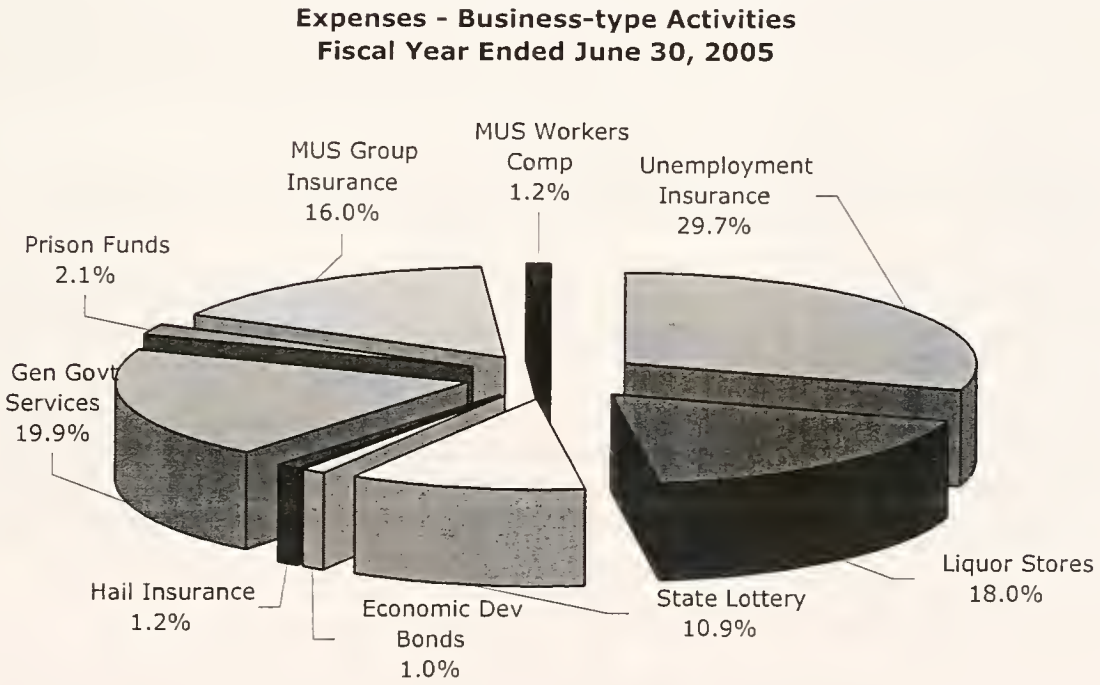
Expenses - Governmental Activities
Fiscal Year Ended June 30, 2005



Business-type Activities
The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of $2.7 billion. Of this total amount, $258.5 million (or 9.6%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending, as it has already been dedicated for various commitments.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was $289.7 million. Unreserved fund balance increased during the fiscal year by $156.8 million, primarily because of increased taxes (natural resource, individual income, corporate income, and property), and licenses and permits revenue.

General Fund Budgetary Highlights – The 59th Legislative Session convened on January 3 and adjourned on April 21, 2005. The session approved a 342.7 million increase in General Fund spending for the 2007 biennium. This represents an almost 15% increase over the 2005 biennium expenditure level. The General Fund budgetary increases approved for the 2007 biennium follow:

- $104 million increase in Human Services programs.
- $86.5 million increase for K-12 Education
- $36.3 million increase for Higher Education
- $34 million increase for Corrections
- $81.8 million for other governmental functions

Supplemental Development – General Fund supplementals approved by the Legislature included $4.4 million for secure care and corrections of inmates; $8.5 million for the highway patrol court settlement; $6.8 million for additional district court reimbursements; $9 million to fully fund the Crow Tribe settlement escrow account, and $16 million (transfer and expenditure authority) to pay the remaining IRIS loan balance and final contractor obligations.

Higher Revenues Than Anticipated – The General Fund experienced revenue growth significantly higher than expected in fiscal year 2005. Overall General Fund revenues were up by $142.2 million (or 11.6%). This was primarily due to the individual and corporate income tax revenue increase of $100.2 and $30.5 million, respectively. Continued economic growth within Montana and the recovery of the investment market contributed to this income tax growth. Higher energy and metals prices led to increased oil, gas, and metals production within the State. This increased activity resulted in a $27.6 million increase in natural resource tax revenues between fiscal years 2004 and 2005.

General Fund Expenditures – General Fund expenditures increased by $66 million (or 5.7%) in 2005. These increases were primarily for the purposes described in the supplemental development section above.

State Special Revenue Fund

At the end of the current fiscal year, fund balance of the State Special Revenue Fund was $907.4 million. Fund balance increased during the fiscal year by $213.2 million, primarily because of increased natural resource tax, property tax, investment earnings, and federal revenue.

Within the State Special Revenue Fund, expenditures increased $21.2 million in the General Government function. This primarily relates to increased oil production tax distributions to the counties of $20.5 million. The Education/Cultural functional expenditures increased by $12.7 million. This primarily relates to an increase in land trust distributions to the State's K-12 schools of $11.5 million. Department of Transportation Highway expenditures decreased by $27.3 million, offsetting the increases previously discussed.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund decreased to $27.4 million (or 12.8%).

The decrease of $46.4 million in charges for services revenues and increase of $43.3 million in indirect cost recoveries represent a correction in the classification of federal highway indirect cost recoveries. These revenues were previously misclassified as charges for services.

Overall revenues or expenditures did not increase significantly in the Federal Special Revenue Fund during fiscal year 2005. Significant changes within the functional categories were caused by (1) Transportation - Increased federal highway

construction expenditures of $25.4 million; (2) Resource/Recreation/Environment - Decreased federal fire reimbursements of $44.6 million; (3) Capital Outlay - Increased federally funded military construction projects of $12.6 million; (3) Public Safety/Corrections - Increased Disaster and Emergency Services funding to the State of $13.8 million; (4) Health and Social Services - Increased Medicaid reimbursements of $12.2 million and increased Food Stamp benefits of $9.4 million.

Coal Severance Tax Permanent Fund
Reserved fund balance in the Coal Severance Tax Permanent Fund increased by $32.8 million (or 5%). This increase was primarily fueled by increased natural resource taxes of $4.3 million (or 27.4%) and investment income of $30.5 million (or 172.4%). These increases reflect increased production of Montana's coal and a significantly improved investment climate over that of the previous year.

Land Grant Permanent Fund
Reserved fund balance in the Land Grant Permanent Fund increased by $9.5 million (or 2.2%). This increase was primarily caused by increased investment income of $27.8 million (or 418.5%). This increase reflects a significantly improved investment climate over that of the previous year. Rentals and leases and royalties income increased by $11.4 million (or 36.6%). This increase relates to the higher natural resource production within the State during 2005 as the result of higher gas, oil, timber, and metals prices. The impact of this increase in revenues on fund balance was offset by transfers out for educational purposes.

Unemployment Insurance Enterprise Fund
Net assets restricted for unemployment compensation increased by $16.1 million (or 8.4%). Unemployment premium collections increased by $5 million (or 7.4%). Unemployment benefits paid decreased by $22.1 million. Both of these factors contributed to the increase in net assets and are reflective of Montana's strong economy during 2005.

Economic Development Enterprise Fund
Net assets did not change significantly in this fund during 2005. Operating activity within this fund also did not change significantly during the year.

General Governmental Functions
Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 9.8% from fiscal year 2004 to fiscal year 2005. Revenues from various sources for fiscal year 2005, and the amount and percentage of increases and decreases in relation to prior year revenues are shown in the following table (amounts in thousands):

Revenue Source	Amount	2005 Percent of Total	Increase (Decrease) from 2004	Percent Increase (Decrease)
Licenses/permits	$ 245,244	6.4%	$ 4,632	1.9%
Taxes	1,627,858	42.2	211,466	14.9
Chg srv/fines/forfeits/settle	145,235	3.8	(55,355)	(27.6)
Investment earnings	143,937	3.7	94,574	191.6
Securities lending income	5,169	0.1	3,137	154.4
Sales doc/merch/property	22,655	0.6	4,633	25.7
Rentals/leases/royalties	43,723	1.1	12,036	38.0
Contributions/premiums	7,744	0.2	136	1.8
Grants/contracts/donations	27,984	0.7	5,116	22.4
Federal	1,502,939	39.0	22,127	1.5
Federal indir cost recvy	81,050	2.1	43,228	114.3
Other revenues	4,340	0.1	(2,072)	(32.3)
Total revenues	$3,857,878	100.0%	$343,658	

Total expenditures for all governmental functions increased 3.3% from fiscal year 2004 to fiscal year 2005. Expenditures by function for fiscal year 2005, and the amount and percentage of increases or decreases in relation to the previous year amounts are depicted in the table below:

Expenditure Function	Amount *(in thousands)*	2005 Percent of Total	Increase (Decrease) from 2004	Percent Increase (Decrease)
General government	$ 293,808	8.1%	$ 41,322	16.4%
Public safety/corrections	238,929	6.6	30,336	14.5
Transportation	523,022	14.5	(6,533)	(1.2)
Health/social services	1,186,462	32.8	72,398	6.5
Education/cultural	905,150	25.0	6,162	0.7
Resource/recreation/environment	206,903	5.7	(43,687)	(17.4)
Economic development/assistance	146,306	4.0	1,925	1.3
Securities lending	4,905	0.1	3,121	174.9
Debt service	41,374	1.1	1,345	3.4
Capital outlay	70,851	2.1	10,541	17.5
Total expenditures	$3,617,710	100.0%	$116,930	

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to $4.6 billion, net of accumulated depreciation of $1.8 billion, leaving a net book value of $2.8 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 16.7% in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

Montana receives excellent bond ratings from both Moody's Investor Service (Aa3) and Standard and Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt decreased from $219.6 million at June 30, 2004, to $213.2 million at June 30, 2005.

The ratio of general obligation debt to assessed property valuation and the amount of general obligation debt per capita are:

	Amount *(in thousands)*	Ratio Debt to Assessed Value (1)	State Debt Per Capita (2)
General obligation debt	$213,195	0.43%	$229.98

(1) Assessed value is based on tax year.
(2) Based on 2004 Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 4.4 % in the second quarter of 2005, which is unchanged from the rate of 4.4% during the second quarter of 2004. This compares favorably with the nation's average unemployment rate of 5.2% during the same time period.

The 59th Legislative Session adjourned on April 21, 2005, with a projected General Fund balance for the 2005 biennium of $162.4 million. During fiscal year 2005, economic conditions continued to improve with the General Fund balance, as of June 30, 2005, ending at the $299.8 million level.

Four of the State's retirement systems are not actuarially sound and have an unfunded actuarially accrued liability as of June 30, 2005. The actuarial condition of these plans is fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Notes 6 and 18 of the financial statements. The unfunded actuarial liability is long-term in nature and does not translate into an inability of these plans to meet their current obligations in the near future. The State is very aware of this situation and is taking steps to address it.

In addition, the Sheriff's Retirement System is underfunded. This is fully disclosed and reported as required by GAAP, and explained in greater detail in Notes 6 and 18 of the financial statements. This does not translate into an inability of the plan to meet current obligations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

STATEMENT OF NET ASSETS
JUNE 30, 2005
(expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 901,086	$ 269,424	$ 1,170,510	$ 201,489
Receivables (net)	283,227	31,621	314,848	68,669
Due from primary government	-	-	-	1,868
Due from other governments	114,487	304	114,791	20,905
Due from component units	1,765	1,982	3,747	1,562
Internal balances	(8,659)	8,659	-	-
Inventories	26,685	6,914	33,599	4,531
Advances to component units	8,881	5,264	14,145	-
Long-term loans/notes receivable	226,077	35,951	262,028	689,079
Equity in pooled investments (Note 3)	1,315,888	-	1,315,888	17,092
Investments (Note 3)	357,894	9,155	367,049	1,228,384
Securities lending collateral (Note 3)	172,467	410	172,877	121,561
Deferred charges	2,682	1,421	4,103	7,434
Capital assets (net) (Note 5)	2,805,658	9,670	2,815,328	499,213
Other assets	4,669	1,913	6,582	18,225
Total assets	6,212,807	382,688	6,595,495	2,880,012
LIABILITIES				
Accounts payable	351,321	7,271	358,592	54,243
Lottery prizes payable	-	2,694	2,694	-
Due to primary government	-	-	-	3,747
Due to other governments	14,632	879	15,511	8,525
Due to component units	1,867	1	1,868	1,562
Advances from primary government	-	-	-	14,145
Deferred revenue	23,707	2,742	26,449	24,149
Amounts held in custody for others	25,403	515	25,918	18,970
Securities lending liability (Note 3)	172,467	410	172,877	121,561
Other liabilities	866	-	866	9,554
Short-term debt (Note 11)	-	84,280	84,280	-
Long-term liabilities (Note 11):				
Due within one year	84,972	9,890	94,862	162,044
Due in more than one year	444,855	7,150	452,005	1,518,223
Total liabilities	1,120,090	115,832	1,235,922	1,936,723

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET ASSETS				
Invested in capital assets, net of related debt	$ 2,528,808	$ 9,670	$ 2,538,478	$ 274,508
Restricted for:				
Transportation	52,845	-	52,845	-
Fish, wildlife, and parks	64,695	-	64,695	-
Federal grants	27,165	-	27,165	21
Debt service/construction	7,695	-	7,695	32,664
Unemployment compensation	-	207,157	207,157	-
Funds held as permanent investments:				
Nonexpendable	1,329,791	-	1,329,791	180,068
Expendable	67,078	-	67,078	-
Housing authority	-	-	-	137,879
Resource/environment	545,612	-	545,612	-
Other purposes	64,304	33,357	97,661	81,520
Unrestricted	404,724	16,672	421,396	236,629
Total net assets	$ 5,092,717	$ 266,856	$ 5,359,573	$ 943,289

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	$ 305,819	$ 49,637	$ 44,672	$ 767	$ (210,743)
Public safety/corrections	258,610	146,746	91,630	-	(20,234)
Transportation	281,074	38,101	35,596	312,630	105,253
Health/social services	1,182,281	31,467	860,300	-	(290,514)
Education/cultural	900,542	30,499	186,152	-	(683,891)
Resource/recreation/environment	197,539	121,539	94,948	6,037	24,985
Economic development/assistance	144,777	25,995	77,728	-	(41,054)
Interest on long-term debt	14,375	-	-	-	(14,375)
Total governmental activities	3,285,017	443,984	1,391,026	319,434	(1,130,573)
Business-type activities:					
Unemployment Insurance	75,291	72,866	18,772	-	16,347
Liquor Stores	45,503	52,081	-	-	6,578
State Lottery	27,681	33,815	-	-	6,134
Economic Development Bonds	2,630	5	2,617	-	(8)
Hail Insurance	3,153	7,404	158	-	4,409
General Government Services	50,329	14,244	36,407	159	481
Prison Funds	5,268	5,233	-	-	(35)
MUS Group Insurance	40,524	47,739	410	-	7,625
MUS Workers Compensation	2,842	2,978	69	-	205
Total business-type activities	253,221	236,365	58,433	159	41,736
Total primary government	$ 3,538,238	$ 680,349	$ 1,449,459	$ 319,593	$ (1,088,837)
Component units:					
Housing Authority	$ 42,460	$ 219	$ 48,636	$ -	$ 6,395
Facility Finance Authority	276	280	62	-	66
State Compensation Insurance (New Fund)	202,930	189,430	-	-	(13,500)
State Compensation Insurance (Old Fund)	10,555	-	-	-	(10,555)
Montana State University	372,205	149,688	148,435	4,554	(69,528)
University of Montana	293,932	129,659	108,069	2,378	(53,826)
Total component units	$ 922,358	$ 469,276	$ 305,202	$ 6,932	$ (140,948)

The notes to the financial statements are an integral part of this statement.

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Changes in net assets:				
Net (expense) revenue	$ (1,130,573)	$ 41,736	$ (1,088,837)	$ (140,948)
General revenues:				
Taxes:				
Property	186,229	-	186,229	-
Fuel	190,897	-	190,897	-
Natural resource	191,723	-	191,723	-
Individual income	729,459	-	729,459	-
Corporate income	101,834	-	101,834	-
Other	257,526	15,624	273,150	-
Unrestricted grants and contributions	-	-	-	106
Settlements	28,313	-	28,313	-
Unrestricted investment earnings	52,792	190	52,982	55,997
Payment from State of Montana	-	-	-	138,437
Gain on sale of capital assets	34	-	34	-
Miscellaneous	4,358	2,945	7,303	11
Contributions to term and permanent endowments	-	-	-	13,208
Transfers	29,871	(29,871)	-	-
Total general revenues, contributions, and transfers	1,773,036	(11,112)	1,761,924	207,759
Change in net assets	642,463	30,624	673,087	66,811
Total net assets - July 1 - as previously reported	4,331,094	236,307	4,567,401	874,008
Prior period adjustments (Note 2)	119,160	(75)	119,085	2,470
Total net assets - July 1 - as restated	4,450,254	236,232	4,686,486	876,478
Total net assets - June 30	$ 5,092,717	$ 266,856	$ 5,359,573	$ 943,289

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
(expressed in thousands)

		SPECIAL REVENUE		PERMANENT			
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
ASSETS							
Cash/cash equivalents (Note 3)	$ 306,333	$ 409,013	$ 39,523	$ 63,721	$ 13,370	$ 31,750	$ 863,710
Receivables (net) (Note 4)	185,653	65,049	7,985	9,439	5,468	5,528	279,122
Interfund loans receivable (Note 12)	19,300	13,365	550	-	-	-	33,215
Due from other governments	2	248	114,235	-	-	-	114,485
Due from other funds (Note 12)	40,020	17,762	617	4	-	589	58,992
Due from component units	539	698	82	76	-	-	1,395
Inventories	2,604	21,999	-	-	-	-	24,603
Equity in pooled investments (Note 3)	-	225,427	-	465,601	433,049	191,811	1,315,888
Long-term loans/notes receivable	30	194,844	297	-	-	30,906	226,077
Advances to other funds (Note 12)	100	14,506	-	44,241	-	2,826	61,673
Advances to component units	-	-	-	8,881	-	-	8,881
Investments (Note 3)	15,480	154,839	2,129	159,389	-	13,159	344,996
Securities lending collateral (Note 3)	-	40,160	-	55,772	51,873	24,430	172,235
Other assets	2,594	1,130	397	-	-	13	4,134
Total assets	$ 572,655	$ 1,159,040	$ 165,815	$ 807,124	$ 503,760	$ 301,012	$ 3,509,406
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	137,459	94,715	84,651	-	5,344	2,102	324,271
Interfund loans payable (Note 12)	-	2,249	28,623	-	-	382	31,254
Due to other governments	1,913	1,135	11,584	-	-	-	14,632
Due to other funds (Note 12)	16,398	27,962	3,180	6,459	-	2,730	56,729
Due to component units	14,793	484	1,296	-	-	3	16,576
Advances from other funds (Note 12)	-	56,667	2,250	-	-	12,371	71,288
Deferred revenue	81,127	24,489	6,419	35	-	10	112,080
Amounts held in custody for others	21,172	3,669	422	-	109	-	25,372
Securities lending liability (Note 3)	-	40,160	-	55,772	51,873	24,430	172,235
Other liabilities	-	133	-	-	-	-	133
Total liabilities	272,862	251,663	138,425	62,266	57,326	42,028	824,570
Fund balances:							
Reserved for:							
Encumbrances	6,718	13,063	1,300	-	-	-	21,081
Inventories	2,604	21,999	-	-	-	-	24,603
Long-term loans/notes receivable	30	187,767	297	-	-	30,906	219,000
Advances to other funds/component units	100	14,506	-	53,122	-	2,826	70,554
Special revenue (Note 14)	-	719,550	27,295	-	-	-	746,845
Debt service	-	-	-	-	-	5,960	5,960
Trust principal (Note 14)	-	-	-	691,736	446,434	205,115	1,343,285
Escheated property	666	-	-	-	-	-	666
Unreserved, designated, reported in nonmajor (Note 1):							
Debt service funds	-	-	-	-	-	8,553	8,553
Unreserved, undesignated	289,675	(49,508)	(1,502)	-	-	-	238,665
Unreserved, undesignated, reported in nonmajor:							
Debt service funds	-	-	-	-	-	(3,097)	(3,097)
Capital projects funds	-	-	-	-	-	8,721	8,721
Total fund balances	299,793	907,377	27,390	744,858	446,434	258,984	2,684,836
Total liabilities and fund balances	$ 572,655	$ 1,159,040	$ 165,815	$ 807,124	$ 503,760	$ 301,012	$ 3,509,406

The notes to the financial statements are an integral part of this statement.

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005
(expressed in thousands)

Total fund balances for governmental funds		$ 2,684,836
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		
Land	354,622	
Land improvements	16,301	
Buildings/improvements	363,438	
Equipment	73,625	
Infrastructure	3,265,389	
Other capital assets	73,581	
Construction in progress	198,464	
Intangible assets	71,493	
Less accumulated depreciation	(1,697,803)	
Total capital assets		2,719,110
Certain tax revenues are earned, but not available and therefore deferred in the funds.		89,338
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		95,301
Deferred issue costs are reported as current expenditures in the funds. These costs are amortized over the life of the bonds and included in govermental activities in the statement of net assets.		2,682
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest	(5,311)	
Lease/installment purchase payable	(1,848)	
Bonds/notes payable (net)	(421,609)	
Compensated absences payable	(68,941)	
Early retirement benefits payable	(55)	
Arbitrage rebate tax payable	(53)	
Other liabilities	(733)	
Total long-term liabilities		(498,550)
Net assets of governmental activities		$ 5,092,717

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

		SPECIAL REVENUE		PERMANENT			
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
REVENUES							
Licenses/permits	$ 128,008	$ 116,676	$ -	$ -	$ 188	$ 372	$ 245,244
Taxes:							
Natural resource	80,475	85,703	-	20,170	-	6,242	192,590
Individual income	702,526	1,109	-	-	-	-	703,635
Corporate income	97,915	-	-	-	-	-	97,915
Property	173,636	12,593	-	-	-	-	186,229
Fuel	-	190,885	-	-	-	12	190,897
Other (Note 1)	200,665	54,099	-	-	-	1,828	256,592
Charges for services/fines/forfeits/settlements	32,464	75,759	24,968	-	1	12,043	145,235
Investment earnings	10,635	27,551	474	48,117	34,392	22,768	143,937
Securities lending income	1,436	1,033	-	1,134	1,060	506	5,169
Sale of documents/merchandise/property	393	4,938	2	-	14,699	2,623	22,655
Rentals/leases/royalties	60	1,105	-	-	42,428	130	43,723
Contributions/premiums	-	7,744	-	-	-	-	7,744
Grants/contracts/donations	2,761	25,126	38	-	40	19	27,984
Federal	27,327	11,581	1,464,031	-	-	-	1,502,939
Federal indirect cost recoveries	158	34,211	46,681	-	-	-	81,050
Other revenues	302	3,683	294	-	-	61	4,340
Total revenues	1,458,761	653,796	1,536,488	69,421	92,808	46,604	3,857,878
EXPENDITURES							
Current:							
General government	186,820	93,574	5,621	-	-	7,793	293,808
Public safety/corrections	142,010	41,138	50,413	-	-	5,368	238,929
Transportation	200	212,275	310,547	-	-	-	523,022
Health/social services	280,235	63,484	842,734	-	-	9	1,186,462
Education/cultural	653,850	78,471	172,821	-	-	8	905,150
Resource/recreation/environment	36,862	108,881	56,339	-	4,590	231	206,903
Economic development/assistance	22,646	58,372	65,288	-	-	-	146,306
Debt service:							
Principal retirement	612	430	197	-	-	25,964	27,203
Interest/fiscal charges	122	1,141	29	-	-	12,879	14,171
Capital outlay	1,352	28,079	25,065	-	-	16,355	70,851
Securities lending	1,375	978	-	1,072	1,002	478	4,905
Total expenditures	1,326,084	686,823	1,529,054	1,072	5,592	69,085	3,617,710
Excess of revenue over (under) expenditures	132,677	(33,027)	7,434	68,349	87,216	(22,481)	240,168
OTHER FINANCING SOURCES (USES)							
Bonds issued	-	133,710	-	-	-	1,670	135,380
Refunding bonds issued	-	5,070	-	-	-	25,000	30,070
Bond premium	-	6,654	-	-	-	1,452	8,106
Payment to refunding bond escrow agent	-	-	-	-	-	(31,018)	(31,018)
Inception of lease/installment contract	264	131	122	-	-	-	517
General capital asset sale proceeds	8	158	3	-	-	-	169
Transfers in (Note 12)	71,866	140,591	2,756	3,006	-	55,432	273,651
Transfers out (Note 12)	(44,438)	(39,564)	(14,598)	(46,870)	(77,728)	(21,670)	(244,868)
Total other financing sources (uses)	27,700	246,750	(11,717)	(43,864)	(77,728)	30,866	172,007
Net change in fund balances	160,377	213,723	(4,283)	24,485	9,488	8,385	412,175
Fund balances - July 1 - as previously reported	141,776	694,159	31,396	720,373	436,902	250,590	2,275,196
Prior period adjustments (Note 2)	(2,299)	463	277	-	44	9	(1,506)
Fund balances - July 1 - as restated	139,477	694,622	31,673	720,373	436,946	250,599	2,273,690
Increase (decrease) in inventories	(61)	(968)	-	-	-	-	(1,029)
Fund balances - June 30	$ 299,793	$ 907,377	$ 27,390	$ 744,858	$ 446,434	$ 258,984	$ 2,684,836

The notes to the financial statements are an integral part of this statement.

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2005
(expressed in thousands)

Net change in fund balances - total governmental funds		$ 412,175
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)		
Capital outlay	399,491	
Depreciation expense	(118,720)	
Excess of capital outlay over depreciation expense		280,771
In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.		(4,204)
Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources.		(529)
Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed.		(1,029)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		37,549
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds.The net revenue (expense) of the internal service funds is reported with governmental activities.		21,640
The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences is as follows:		
Bonds issued	(135,380)	
Refunding bonds issued	(30,070)	
Bond premium	(8,106)	
Payment to refunding bond escrow agent	31,018	
Capital lease financing	(517)	
Principal retirement	27,203	
Issuance costs deferral	947	
Bond issuance costs amortization	(194)	
Bond refunding loss amortization	(693)	
Bond discount amortization	(4)	
Bond premium amortization	306	
Total long-term debt proceeds/repayment		(115,490)

Some expenditures reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(234)	
Compensated absences	1,378	
Early retirement benefits	161	
Arbitrage rebate tax	25	
Other liabilities	10,250	
Total additional expenditures		11,580
Change in net assets of governmental activities		$ 642,463

The notes to the financial statements are an integral part of this statement.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 204,133	$ 17,151	$ 48,140	$ 269,424	$ 37,376
Receivables (net) (Note 4)	3,431	10,309	17,827	31,567	3,903
Interfund loans receivable (Note 12)	-	-	9	9	607
Due from other governments	-	-	304	304	2
Due from other funds (Note 12)	-	3,695	136	3,831	5,475
Due from component units	-	1,661	350	2,011	454
Inventories	-	-	6,914	6,914	2,082
Short-term investments (Note 3)	-	1,807	-	1,807	-
Securities lending collateral (Note 3)	-	-	410	410	232
Other current assets	-	-	293	293	535
Total current assets	207,564	34,623	74,383	316,570	50,666
Noncurrent assets:					
Restricted investments	-	4,074	-	4,074	-
Advances to other funds (Note 12)	-	14,013	195	14,208	-
Advances to component units	-	6,644	-	6,644	-
Long-term investments (Note 3)	-	18	3,256	3,274	12,898
Long-term notes/loans receivable	-	34,082	308	34,390	-
Deferred charges	-	1,393	28	1,421	-
Other long-term assets	-	-	1,618	1,618	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	2,343	2,343	95
Buildings/improvements	-	-	6,098	6,098	2,852
Equipment	-	3	10,061	10,064	183,514
Infrastructure	-	-	884	884	-
Construction in progress	-	-	868	868	3,471
Intangible assets	-	-	661	661	1,157
Less accumulated depreciation	-	(3)	(12,045)	(12,048)	(104,775)
Total capital assets	-	-	9,670	9,670	86,550
Total noncurrent assets	-	60,224	15,075	75,299	99,448
Total assets	207,564	94,847	89,458	391,869	150,114

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	$ 342	$ 916	$ 6,013	$ 7,271	$ 6,890
Lottery prizes payable	-	-	1,436	1,436	-
Interfund loans payable (Note 12)	-	-	146	146	2,431
Due to other governments	-	-	879	879	-
Due to other funds (Note 12)	65	3	8,967	9,035	2,508
Due to component units	-	-	1	1	22
Deferred revenue	-	-	2,742	2,742	965
Short-term debt (Note 11)	-	84,280	-	84,280	-
Lease/installment purchase payable (Note 10)	-	-	-	-	118
Bonds/notes payable - net (Note 11)	-	1,474	410	1,884	-
Amounts held in custody for others	-	415	100	515	31
Securities lending liability (Note 3)	-	-	410	410	232
Estimated insurance claims (Note 8)	-	-	7,414	7,414	16,264
Compensated absences payable (Note 11)	-	19	573	592	2,470
Total current liabilities	407	87,107	29,091	116,605	31,931
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,258	1,258	-
Advances from other funds (Note 12)	-	-	-	-	4,412
Lease/installment purchase payable (Note 10)	-	-	-	-	738
Bonds/notes payable - net (Note 11)	-	2,434	850	3,284	-
Estimated insurance claims (Note 8)	-	-	3,199	3,199	15,739
Compensated absences payable (Note 11)	-	24	529	553	1,993
Arbitrage rebate tax payable	-	114	-	114	-
Total noncurrent liabilities	-	2,572	5,836	8,408	22,882
Total liabilities	407	89,679	34,927	125,013	54,813
NET ASSETS					
Invested in capital assets, net of related debt	-	-	9,670	9,670	85,694
Restricted for:					
Unemployment Compensation	207,157	-	-	207,157	-
Other Purposes	-	2,504	30,853	33,357	-
Unrestricted	-	2,664	14,008	16,672	9,607
Total net assets	$ 207,157	$ 5,168	$ 54,531	$ 266,856	$ 95,301

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	$ -	$ 5	$ 96,957	$ 96,962	$ 93,911
Investment earnings	10,951	637	863	12,451	859
Securities lending income	-	-	12	12	21
Financing income	-	2,126	-	2,126	-
Contributions/premiums	72,866	-	66,332	139,198	108,940
Grants/contracts/donations	7,821	-	36,211	44,032	-
Taxes	-	-	15,624	15,624	-
Other operating revenues	2,507	-	644	3,151	1,906
Total operating revenues	94,145	2,768	216,643	313,556	205,637
Operating expenses:					
Personal services	-	252	9,480	9,732	35,015
Contractual services	-	32	10,027	10,059	16,913
Supplies/materials	-	3	46,139	46,142	15,763
Benefits/claims	71,789	-	83,452	155,241	81,657
Depreciation	-	1	1,707	1,708	11,276
Amortization	-	-	287	287	654
Utilities/rent	-	41	775	816	8,926
Communications	-	6	1,073	1,079	9,150
Travel	-	4	184	188	397
Repair/maintenance	-	-	429	429	7,473
Grants	-	-	1,417	1,417	-
Lottery prize payments	-	-	17,804	17,804	-
Interest expense	-	2,191	58	2,249	271
Securities lending expense	-	-	11	11	20
Arbitrage rebate tax	-	67	-	67	-
Dividend expense	-	-	791	791	-
Other operating expenses	3,502	30	1,455	4,987	2,456
Total operating expenses	75,291	2,627	175,089	253,007	189,971
Operating income (loss)	18,854	141	41,554	60,549	15,666
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	-	(3)	(17)	(20)	(754)
Federal indirect cost recoveries	-	-	-	-	4,003
Increase (decrease) value of livestock	-	-	(193)	(193)	-
Total nonoperating revenues (expenses)	-	(3)	(210)	(213)	3,249
Income (loss) before contributions and transfers	18,854	138	41,344	60,336	18,915
Capital contributions	-	-	1,946	1,946	-
Transfers in (Note 12)	-	-	63	63	2,915
Transfers out (Note 12)	(2,729)	-	(28,992)	(31,721)	(190)
Change in net assets	16,125	138	14,361	30,624	21,640
Total net assets - July 1 - as previously reported	191,032	5,030	40,245	236,307	70,881
Prior period adjustments (Note 2)	-	-	(75)	(75)	2,780
Total net assets - July 1 - as restated	191,032	5,030	40,170	236,232	73,661
Total net assets - June 30	$ 207,157	$ 5,168	$ 54,531	$ 266,856	$ 95,301

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	$ 71,841	$ 5	$ 161,783	$ 233,629	$ 205,979
Payments to suppliers for goods and services	(310)	(119)	(93,493)	(93,922)	(63,536)
Payments to employees	-	(238)	(9,480)	(9,718)	(34,954)
Grant receipts	7,923	-	36,717	44,640	3,900
Grant payments	-	-	(1,347)	(1,347)	-
Cash payments for claims	(71,366)	-	(48,859)	(120,225)	(87,180)
Cash payments for prizes	-	-	(17,974)	(17,974)	-
Other operating revenues	2,552	-	620	3,172	1,636
Other operating payments	-	-	(791)	(791)	-
Net cash provided by (used for) operating activities	10,640	(352)	27,176	37,464	25,845
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	15,623	15,623	-
Transfers to other funds	(3,320)	-	(29,667)	(32,987)	(441)
Transfers from other funds	-	-	63	63	3,049
Proceeds from interfund loans/advances	-	-	1,847	1,847	10,748
Payments of interfund loans/advances	(1)	-	(1,852)	(1,853)	(9,217)
Payment of external loan	-	-	(200)	(200)	-
Collection of principal and interest on loans	-	-	561	561	-
Payment of principal and interest on bonds and notes	-	(10,616)	(445)	(11,061)	(199)
Proceeds from issuance of bonds and notes	-	177	-	177	-
Net cash provided by (used for) noncapital financing activities	(3,321)	(10,439)	(14,070)	(27,830)	3,940
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	-	-	(988)	(988)	(16,278)
Proceeds from sale of capital assets	-	-	3	3	1,483
Principal and interest payments on bonds and notes	-	-	-	-	(120)
Net cash used for capital and related financing activities	-	-	(985)	(985)	(14,915)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(1,334)	(497)	(1,831)	(10,000)
Proceeds from sales or maturities of investments	-	23,227	674	23,901	1,350
Proceeds from securities lending transactions	-	-	12	12	21
Interest and dividends on investments	10,951	692	858	12,501	876
Payment of securities lending costs	-	-	(11)	(11)	(20)
Collections of principal and interest on loans	-	20,286	-	20,286	-
Cash payment for loans	-	(22,371)	-	(22,371)	-
Arbitrage rebate tax	-	(92)	-	(92)	-
Net cash provided by (used for) investing activities	10,951	20,408	1,036	32,395	(7,773)
Net increase (decrease) in cash and cash equivalents	18,270	9,617	13,157	41,044	7,097
Cash and cash equivalents, July 1	185,863	7,535	34,983	228,381	30,279
Cash and cash equivalents, June 30	$ 204,133	$ 17,152	$ 48,140	$ 269,425	$ 37,376

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 18,853	$ 141	$ 41,554	$ 60,548	$ 15,666
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	-	1	1,707	1,708	11,276
Amortization	-	-	287	287	654
Taxes	-	-	(15,624)	(15,624)	-
Interest expense	-	2,191	58	2,249	271
Securities lending expense	-	-	11	11	20
Investment Earnings	(10,951)	(637)	(863)	(12,451)	(859)
Securities lending income	-	-	(12)	(12)	(21)
Financing income	-	(2,126)	-	(2,126)	-
Federal indirect cost recoveries	-	-	-	-	4,003
Arbitrage rebate tax	-	67	-	67	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	2,780	-	(988)	1,792	2,099
Decr (incr) in due from other funds	1	-	100	101	671
Decr (incr) in due from component units	-	-	(82)	(82)	75
Decr (incr) in due from other governments	-	-	(81)	(81)	1
Decr (incr) in inventories	-	-	(72)	(72)	(1,263)
Decr (incr) in other assets	-	-	(17)	(17)	(14)
Incr (decr) in accounts payable	288	(4)	(173)	111	(1,169)
Incr (decr) in lottery prizes payable	-	-	(118)	(118)	-
Incr (decr) in due to other funds	-	(3)	(45)	(48)	(548)
Incr (decr) in due to component units	-	-	-	-	(28)
Incr (decr) in due to other governments	-	-	586	586	-
Incr (decr) in deferred revenue	-	-	(737)	(737)	(3)
Incr (decr) in amounts held in custody for others	(331)	-	(84)	(415)	(14)
Incr (decr) in compensated absences payable	-	18	(101)	(83)	(222)
Incr (decr) in estimated claims	-	-	1,870	1,870	(4,750)
Net cash provided by (used for) operating activities	$ 10,640	$ (352)	$ 27,176	$ 37,464	$ 25,845
Schedule of noncash transactions:					
Capital asset acquisitions from capital leases	$ -	$ -	$ -	$ -	$ 793
Amortization of bond issuance costs	-	-	8	8	-
Incr (decr) in fair value of investments	-	(9)	(22)	(31)	(31)
Total noncash transactions	$ -	$ (9)	$ (14)	$ (23)	$ 762

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005
(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	$ 109,529	$ 2,481	$ 580,876	$ 8,258
Receivables (net):				
Accounts receivable	17,080	8	-	659
Interest	14,673	-	-	-
Due from primary government	14,732	-	-	-
Due from other PERB plans	350	-	-	-
Long-term loans/notes receivable	167	-	-	-
Total receivables	47,002	8	-	659
Investments at fair value:				
Equity in pooled investments (Note 3)	6,137,767	-	-	-
Other investments (Note 3)	374,871	-	-	-
Total investments	6,512,638	-	-	-
Securities lending collateral (Note 3)	277,755	-	-	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	152	-	-	-
Accumulated depreciation	(264)	-	-	-
Intangible assets	1,187	-	-	-
Total capital assets	1,268	-	-	-
Other assets	21	7,131	-	12,201
Total assets	6,948,213	9,620	580,876	21,118
LIABILITIES				
Accounts payable	750	18	529	812
Due to primary government	113	-	-	-
Due to other PERB plans	350	-	-	-
Due to other funds (Note 12)	26	-	-	-
Advances from primary government	1,380	-	-	-
Advances from other funds (Note 12)	181	-	-	-
Deferred revenue	62	-	-	-
Amounts held in custody for others	-	-	-	20,306
Securities lending liability (Note 3)	277,755	-	-	-
Compensated absences payable	403	-	-	-
Total liabilities	281,020	18	529	21,118
NET ASSETS				
Held in trust for pension benefits and other purposes	$ 6,667,193	$ 9,602	$ 580,347	$ -

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	$ 135,929	$ -	$ -
Employee	150,499	-	-
Other contributions	17,961	-	1,084,719
Net investment earnings:			
Investment earnings	509,649	32	12,328
Administrative investment expense	(9,869)	-	-
Securities lending income	6,369	-	-
Securities lending expense	(5,922)	-	-
Charges for services	345	-	-
Other additions	195	4,000	-
Transfers in	150	-	-
Total additions	805,306	4,032	1,097,047
DEDUCTIONS			
Benefits	359,329	-	-
Refunds	20,393	-	-
Distributions	-	2,453	1,118,611
Administrative expenses:			
Personal services	2,311	-	-
Contractual services	2,283	-	-
Supplies/materials	75	-	-
Depreciation	5	-	-
Amortization	403	-	-
Utilities/rent	250	-	-
Communications	174	-	-
Travel	49	-	-
Repair/maintenance	55	-	-
Grants	-	4	-
Interest expense	51	-	-
Other operating expenses	349	-	-
Local assistance	11	-	-
Transfers to ORP	159	-	-
Transfers to PERS-DCRP	914	-	-
Total deductions	386,811	2,457	1,118,611
Change in net assets	418,495	1,575	(21,564)
Net assets - July 1 - as previously reported	6,248,441	8,035	601,911
Prior period adjustments (Note 2)	257	(8)	-
Net assets - July 1 - as restated	6,248,698	8,027	601,911
Net assets - June 30	$ 6,667,193	$ 9,602	$ 580,347

The notes to the financial statements are an integral part of this statement.

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2005
(expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	$ 5,772	$ 1,943	$ 32,157	$ 12,207
Receivables (net)	16,477	237	12,930	704
Due from primary government	5	-	2	-
Due from other governments	33	-	-	-
Due from component units	-	-	702	212
Inventories	-	-	-	-
Long-term loans/notes receivable	662,373	338	36	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	216,347	-	656,029	51,353
Securities lending collateral (Note 3)	-	-	101,859	17,769
Deferred charges	7,434	-	-	-
Capital assets (net) (Note 5)	81	1	4,690	-
Other assets	209	1	8,429	-
Total assets	908,731	2,520	816,834	82,245
LIABILITIES				
Accounts payable	4,117	9	13,690	245
Due to primary government	25	2	1,072	1
Due to other governments	33	-	-	-
Due to component units	-	-	212	702
Advances from primary government	-	-	-	-
Deferred revenue	-	-	4,926	-
Amounts held in custody for others	3	-	13,055	-
Securities lending liability (Note 3)	-	-	101,859	17,769
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	10,367	13	111,875	10,322
Due in more than one year	756,226	12	401,471	68,787
Total liabilities	770,771	36	648,160	97,826
NET ASSETS				
Invested in capital assets, net of related debt	81	-	4,690	-
Restricted for:				
Federal grants	-	-	-	-
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	137,879	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	2,484	163,984	(15,581)
Total net assets	$ 137,960	$ 2,484	$ 168,674	$ (15,581)

The notes to the financial statements are an integral part of this statement.

MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
$ 88,504	$ 60,906	$ 201,489
16,473	21,848	68,669
854	1,007	1,868
12,254	8,618	20,905
191	457	1,562
2,799	1,732	4,531
17,015	9,317	689,079
10,044	7,048	17,092
146,499	158,156	1,228,384
1,203	730	121,561
-	-	7,434
249,731	244,710	499,213
5,440	4,146	18,225
551,007	518,675	2,880,012
16,871	19,311	54,243
1,597	1,050	3,747
8,469	23	8,525
458	190	1,562
8,688	5,457	14,145
8,623	10,600	24,149
3,917	1,995	18,970
1,203	730	121,561
3,593	5,961	9,554
16,838	12,629	162,044
138,326	153,401	1,518,223
208,583	211,347	1,936,723
158,792	110,945	274,508
-	21	21
15,538	17,126	32,664
78,812	101,256	180,068
-	-	137,879
35,060	46,460	81,520
54,222	31,520	236,629
$ 342,424	$ 307,328	$ 943,289

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
EXPENSES	$ 42,460	$ 276	$ 202,930	$ 10,555
PROGRAM REVENUES:				
Charges for services	219	280	189,430	-
Operating grants and contributions	48,636	62	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	48,855	342	189,430	-
Net (expenses) program revenues	6,395	66	(13,500)	(10,555)
GENERAL REVENUES:				
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	39,402	2,417
Payment from State of Montana	-	-	-	-
Miscellaneous	11	-	-	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	11	-	39,402	2,417
Change in net assets	6,406	66	25,902	(8,138)
Total net assets - July 1 - as previously reported	131,554	2,418	142,772	(7,443)
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	131,554	2,418	142,772	(7,443)
Total net assets - June 30	$ 137,960	$ 2,484	$ 168,674	$ (15,581)

The notes to the financial statements are an integral part of this statement.

	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
$	372,205	$ 293,932	$ 922,358
	149,688	129,659	469,276
	148,435	108,069	305,202
	4,554	2,378	6,932
	302,677	240,106	781,410
	(69,528)	(53,826)	(140,948)
	106	-	106
	4,044	10,134	55,997
	79,996	58,441	138,437
	-	-	11
	4,280	8,928	13,208
	88,426	77,503	207,759
	18,898	23,677	66,811
	323,151	281,556	874,008
	375	2,095	2,470
	323,526	283,651	876,478
$	342,424	$ 307,328	$ 943,289

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of these entities:

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 204, PO Box 200528, Helena, MT 59620-0545.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

State Compensation Insurance Fund (New and Old) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the Legislature. The fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 46 North Last Chance Gulch, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund and the State Special Revenue Fund.

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The plan is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The plan is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board, appointed by the Governor, administers ten separate retirement plans for the purpose of providing retirement, disability, death, and lump-sum payments to each plan member. These legally separate plans include the Public Employees Defined Benefit Retirement Plan, Public Employees Defined Contribution Retirement Plan, the associated education funds, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) includes the Public Employees Defined Benefit Retirement Plan and the Public Employees Defined Contribution Retirement Plan, and is funded from employer and employee contributions, investment earnings and contributions from state, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member, state, and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member and investment earnings; there is one employer, Great Falls Transit, that contributes to the program.

The board is a discretely presented component unit responsible for the ten separate public employee retirement plans including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

A. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are only reported on the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements
The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

Governmental Fund Financial Statements
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are: licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

Fund Financial Statements
The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds
General Fund – To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

Proprietary Funds
Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its

fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds
To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – These funds provide retirement, disability, death, and lump-sum payments to retirement plan members.

Private-Purpose Trust Funds – These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments.

Investment Trust – This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds – Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Major Governmental Funds
The General Fund is the State's primary operating fund, as defined above.

The State Special Revenue Fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for all activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Enterprise Funds
The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. (See Note 3).

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Restricted Assets

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted assets on the balance sheet because their use is limited by applicable bond indenture agreements.

I. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific trusts established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the Balance Sheet within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

J. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is $25,000. The capitalization threshold for infrastructure is $500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at $5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

L. Deferred Revenue

Deferred revenue in the government-wide, proprietary fund, and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds.

N. Capital Leases

A capital lease is generally defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability is recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and an other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2004, was 2,172 hours. For fiscal year 2005, 5,601 hours were contributed to the sick leave pool and 6,185 hours were withdrawn leaving a balance of 1,588 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

Q. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

R. Fund Balance/Net Assets

The State reserves those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent

tentative plans for the future use of financial resources. The debt service funds designated fund balances represent management's desire to maintain fund balance for future debt service payments.

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reported restricted net assets (in thousands) of $2,399,699 of which $431,243 is restricted by enabling legislation.

S. Property Taxes

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

T. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Accommodations	$ 9,957	$14,193	$ -	$ 24,150
Agriculture sales	-	3,125	-	3,125
Cigarette/tobacco	39,087	20,226	1,828	61,141
Fire protection	-	2,513	-	2,513
Insurance premium	57,090	-	-	57,090
Livestock	-	3,216	-	3,216
Other taxes	20,736	7,615	-	28,351
Public Service Commission	-	3,171	-	3,171
Telephone license	21,211	-	-	21,211
Video gaming	52,584	40	-	52,624
Total other taxes	$200,665	$54,099	$1,828	$256,592

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2005, the State implemented GASB Statement 40, Deposit and Investment Risk Disclosure, an amendment of GASB Statement 3. As a result, the disclosure related to deposit and investment risks were changed. These changes are reflected in Note 3.

GASB Statement 46, Net Assets Restricted by Enabling Legislation, an amendment of GASB 34, was early implemented with the year ended June 30, 2005. Statement 46 clarifies when net assets should be considered restricted based upon enabling legislation. In addition, the statement requires this portion of restricted net assets to be disclosed in the notes to the financial statements. Refer to Note 1, part R.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Net Assets, and related to various capital asset corrections and corrections made to adjust additional governmental fund revenue from the modified to the full accrual basis of accounting.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	$2,073,145
Equity in pooled investments	$7,470,748
Investments	$1,970,303

Carrying amounts for the bank balance for Cash Deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool, cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account, there is the Short-term Investment Pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

The State's cash equivalents and investments are detailed in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2005.

(2) All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments. The State invests in certain types of securities including: U.S. government direct-backed, U.S. government indirect-backed, corporate stock/bonds, foreign government bonds, municipals, equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADRs), equity derivatives, venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments and cash equivalents, to provide a diversified investment portfolio and an overall competitive rate of return.

U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations

explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADRs are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives "derive" their value from other equity instruments such as futures and options.

Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBOs) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company's current management team. Mezzanine investments are the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options. Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations.

Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments. Private equity investments are long-term, by design, and extremely liquid.

Investments are presented in the Statement of Net Assets at fair value. Fair values for investment pool securities are determined primarily by reference to market prices supplied to the BOI by BOI's custodial bank, State Street Bank. Amortized cost represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. During the fiscal year, the State's agent loaned, on behalf of the State, certain securities held by the agent and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership during the loan period. At year-end, the BOI has no credit risk exposure to borrowers because the amount the BOI owes the borrowers exceed the amounts the borrowers owe the system.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 - Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	$ 24,250
Uninsured and uncollateralized cash	4,822
Undeposited cash	4,334
Cash in U.S. Treasury	205,163
Cash in MSU component units	3,387
Cash in UM component units	2,881
Less: outstanding warrants	(54,007)
Total cash deposits	$190,830

As of June 30, 2005, the carrying amount of deposits for component units was $94,686,731, as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the Treasurer's Cash Pool, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments or other agencies, as allowed by law.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	Fund
Commercial paper	$1,249,527	A1	Various
Corporate fixed	49,821	A1+	Various
Corporate variable-rate	414,952	A1+	Various
Municipal variable-rate	6,000	NR	Various
Repurchase agreement (1)	22,000	A3	Various
Repurchase agreement (2)	16,542	NR	Various
Government direct-indirect	267,578	AAA	Various
Money market	33,120	NR	Various
Less: STIP included in pooled investment balance	(177,225)		
Total cash equivalents	$1,882,315		
Securities lending collateral investment pool	$ -		

(1) As of June 30, 2005, the State Street Bank repurchase agreement was collateralized at a fair value of $22 million by a $17.1 million par, 6.375% coupon, U.S. government Treasury bond maturing August 15, 2027.

(2) As of June 30, 2005, the U.S. Bank repurchase agreement, per contract, was collateralized at 102% for $16,874,485 by Federal Home Loan Mortgage Corporation REMICs maturing September 15, 2032 and November 12, 2033. These securities carry a AAA credit quality rating.

As of June 30, 2005, local governments invested $580,347,134 in STIP.

As of June 30, 2005, component units of the State of Montana had investments in cash equivalents with a book value and fair value of $303,233,562, as included in Table 2.

Investment Risk Disclosures
The investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk
Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investment's policy requires that STIP securities have the highest investment grade rating in the short-term category by at least one of the Nationally Recognized Statistical Rating Organizations (NRSRO).

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement 40.

STIP investments are categorized above to disclose credit risk as of June 30, 2005. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank, or the State's name.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The STIP Investment Policy Statement

does not specifically address concentration of credit risk. The policy does provide for "a minimum of three (3%) percent or $15 million, whichever is higher, to be invested in repurchase agreements." As of June 30, 2005, there were no single issuer investments that exceeded 5% of the STIP portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement 40, interest rate disclosures are not required for STIP, since STIP is a "2a-7-like pool".

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

While variable-rate (floating-rate) securities have credit risk identical to similar fixed-rate securities, their interest rate risk is more sensitive to interest rate changes. However, their fair value may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield.

Legal Risk

As of June 30, 2005, Montana was not aware of any legal risks regarding any investments.

C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), and Montana Private Equity Pool (MPEP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated "Prudent Expert Principle".

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Common Stock Pool	$1,264,857	$1,501,726
Equity Index Fund	1,039,696	1,132,427
DFA Small Cap Subtrust	177,282	243,808
MidCap Equity Index Fund	100,000	106,617
SPIFF	27,368	27,335
TFBP:		
Corporate bonds (rated)	624,288	665,537
Corporate bonds (unrated)	5,956	5,956
Foreign government bonds	9,924	10,435
Municipal government bonds (unrated)	6,122	6,123
U.S. government direct-backed	114,906	120,326
U.S. government indirect-backed	441,037	455,263
Repurchase agreement (rated)	3,308	3,308
STIP	64,747	64,747
RFBP:		
Corporate bonds (rated)	838,067	894,556
Corporate bonds (unrated)	19,289	19,538
Foreign government bonds	4,962	5,218
U.S. government direct-backed	180,694	188,790
U.S. government indirect-backed	587,411	605,801
Repurchase agreement	9,924	9,924
STIP	112,478	112,478
MTIP:		
BGI MSCI Europe Index	384,025	466,247
BOI MSCI Pacific Index	40,005	50,628
DFA International Small Company	75,484	76,554
SPIFF	2,123	2,111
Schroder Investment Management	120,403	137,134
Pyford International	124,335	149,790
Nomura Asset Management USA	93,755	111,054
MPEP:		
Private equities	240,230	265,011
State Street SPIFF	32,151	32,180
Repurchase agreement	447	447
Total pooled investments	6,745,274	7,471,070
Pool adjustments (net)	(322)	(322)
Total equity in pooled investments	$6,744,952	$7,470,748

At June 30, 2005, the carrying and fair value of the underlying securities on loan was $412,925,435 and $428,862,484, respectively. The collateral provided for the securities on loan totaled $441,186,614.

As of June 30, 2005, component units of the State of Montana had equity in pooled investments with a book value of $4,410,568,229 and a fair value of $6,154,858,281, as included in Table 3.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific pools to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the pool fixed income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires pool fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the previous table are provided by S& P's rating services. If an S&P rating is not available, a Moody's rating has been used.

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the board. The TFBP holds a $2 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2013 and a $3 million par 10.14% Delta Airlines Corp. bond maturing August 14, 2012. The RFBP holds $3 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2013, a $1.971 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2011 and a $6 million par 10.14% Delta Airlines Corp. bond maturing August 14, 2012. Due to a weak credit outlook and potential bankruptcy, the board stopped the interest income accruals after the December 2004 and February 2005 pay dates. Although the interest accruals were stopped, the board received the interest due in June 2005 and August 2005. The combined book value of these securities was $15,943,652 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the book values were reduced to $7,985,500.

As of June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the board. The TFBP held a $10,757,539 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020, a $3,901,307 par 7.935% Northwest Airlines Inc. MBIA Insurance Corp insured bond maturing April 1, 2019 and a $9,255,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The combined book value of these securities was $23,611,399 as of June 30, 2005. The RFBP held a $9,930,036 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020, a $7,802,614 par 7.935% Northwest Airlines Inc. MBIA Insurance Corp. insured bond maturing April 1, 2019 and a $5,745,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The combined book value of these securities was $22,989,339 as of June 30, 2005. On September 14, 2005, the company filed for Chapter 11 bankruptcy protection. Due to this action, the board stopped the interest income accruals for the 6.81% bonds maturing February 1, 2020 after the August 2005 pay date. These issues were sold on September 20, 2005 generating a loss of $809,221 and $642,183, for TFBP and RFBP respectively. The sale included accrued interest from August 1, 2005 to September 20, 2005. Since the 7.935% bonds maturing April 1, 2019 is insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance, the board did not stop the interest income accrual or reduce book value. The 4.64% bonds maturing July 7, 2010 is secured by Northwest Airlines Inc.'s corporate headquarters building and land.

As of June 30, 2005, Burlington Industries, Inc. presented a legal and higher credit risk to the board. TFBP owns a Burlington Industries, Inc., $4 million par, 7.25% bond maturing September 15, 2005. RFBP owns a Burlington Industries, Inc., $6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for these issues were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the TFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $3,739,760 to $1,600,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $800,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the TFBP received $969,974 in August 2004 for its unsecured claim. This transaction reduced the book value to $0 and generated a gain of $169,974. In February 2005 and May 2005, the TFBP received an additional $139,180 and $129,498, respectively, for its unsecured claim. During fiscal year 2001, the RFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $5,609,640 to $2,400,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $1,200,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the RFBP received $1,454,961 in August 2004 for its unsecured claim. This transaction reduced the book value to $0 and generated a gain of $254,961. In February 2005 and May 2005, the RFBP received an additional $208,771 and $194,247, respectively, for its unsecured claim. Both the TFBP and RFBP are expected to receive additional proceeds over the next two to three years.

As of June 30, 2004, Winn Dixie presented a higher credit risk to the board. The TFBP held a Winn Dixie Trust, $64.509 million par, zero coupon bond maturing September 1, 2024. Due to a weak credit outlook and collateral uncertainty, the board stopped accruing income and reduced the book value to $4.8 million in February 2004. On February 21, 2005, Winn Dixie declared bankruptcy. On February 28, 2005, the board sold the bonds and recorded a $4.231 million gain. The RFBP held a Winn Dixie Trust, $70 million par, zero coupon bond maturing September 1, 2024. Due to a weak credit outlook and collateral uncertainty, the board stopped accruing income and reduced the book value to $5.2 million in February 2004. On February 21, 2005, Winn Dixie declared bankruptcy. On February 28, 2005, the board sold the bonds and recorded a $4.6 million gain.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all the fixed income securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

According to the TFBP and RFBP investment policies, "with the exception of U.S. government indirect-backed (agency) securities, additional TFBP or RFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". As of June 30, 2005, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 8.19%. As of June 30, 2005, the RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 6.21%.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The TFBP and RFBP investment pool policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk. This information, as provided by our custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs, and ARMs)."

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

As reported in the U.S. government indirect-backed category, the TFBP portfolio holds REMICs totaling $113,944 at amortized cost as of June 30, 2005. The RFBP portfolio holds REMICs totaling $554,309 in amortized cost as of June 30, 2005. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

In regard to RFPB, the Interest Only (IO) securities are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities. The IO REMIC securities purchased in August and September 1992 are being reduced periodically towards zero according to the expected average life of the underlying mortgages. The IO securities amortized cost is $3 as of June 30, 2005.

The TFBP holds one inverse variable-rate corporate $15 million par bond. The RFBP holds one inverse variable-rate corporate $25 million par bond. The quarterly coupon is calculated at a set rate less the 12-month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2005, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

TFBP
Credit Quality Rating and Effective Duration as of June 30, 2005
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$ 665,537	A-	5.42
Corporate bonds (unrated)	5,956	NR	2.12
Foreign government bonds	10,435	BBB	6.67
Municipal government bonds	6,123	NR	2.58
U.S. government direct-backed	120,326	AAA	6.14
U.S. government indirect-backed	455,263	AAA	3.86
State Street repurchase agreement (rated) (1)	3,308	AA-	NA
Total investments	$1,266,948	AA-	4.91
Securities lending collateral investment pool	$ 159,415	NR	NA

(1) At June 30, 2005, the State Street Bank repurchase agreement was collateralized at $3,389,890 by a AAA-rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2005
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	$ 894,556	A-	5.75
Corporate bonds (unrated)	19,538	NR	4.07
Foreign government bonds	5,218	BBB	6.67
U.S. government direct-backed	188,790	AAA	4.50
U.S. government indirect-backed	605,801	AAA	3.91
State Street repurchase agreement (rated) (1)	9,924	AA-	NA
Total fixed income investments	$1,723,827	AA-	4.95
Securities lending collateral investment pool	$ 214,243	NR	NA

(1) At June 30, 2005, the State Street Bank repurchase agreement was collateralized at $10,169,671 by a AAA-rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Several MPEP investments represent limited partnership investments in various foreign countries. Per GASB Statement 40, no foreign currency risk disclosure is required for these limited partnership investments. As provided for in the partnership agreements, currency exposures may be hedged, partially or fully, at the discretion of the manager to preserve the U.S. dollar value of investments made. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the U.S. dollar value of investments is not authorized.

The U.S. dollar balances of the MTIP cash and investments are disclosed by currency in the following table.

MTIP
Cash by Currency
(in thousands)

	2005	
Cash	Carrying Amount	Fair Value
Australian Dollar	$ 132	$ 130
Hong Kong Dollar	125	125
Japanese Yen	1,459	1,438
South Korean Won	4	4
Malaysian Ringgit	7	7
New Zealand Dollar	70	68
Philippine Peso	3	3
Singapore Dollar	1	1
New Taiwan Dollar	195	193
Total cash	$1,996	$1,969

The MTIP, through the funds below, has significant investments in 19 foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the funds in which MTIP is invested.

MTIP
Investment by Security Type
(in thousands)

	2005	
Security Investment Type	Carrying Amount	Fair Value
BGI MSCI Europe Index	$384,025	$466,247
BOI MSCI Pacific Index	40,005	50,628
DFA International Small Company	75,484	76,554
SPIFF	2,123	2,111
Schroder Investment Management	120,403	137,134
Pyford International	124,335	149,790
Nomura Asset Management U.S.A., Inc.	93,755	111,054
Total investments	$840,130	$993,518
Securities lending collateral investment pool	$ 34,537	$ 34,537

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. Long-term investments are administered by the following agencies:

Long-term Investments

Department	Percent Administered
Board of Investments	66.87%
PERA (Public Employee Retirement Administration)	14.85
Board of Housing	12.63
Montana State University/University of Montana	3.32
Other (1)	2.33
Total	100.00%

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, and the Department of Public Health and Human Services.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value	Credit Quality Rating	Effective Duration
Rated investments:				
AOF Corporate bonds	$ 338,017	$ 344,153	A	3.83
AOF U.S. Govt direct-backed	31,672	32,670	AAA	3.35
AOF U.S. Govt indirect-backed	398,645	407,110	AAA	2.74
Total	$ 768,334	$ 783,933		2.99
MUS Workers Compensation	$ 1,594			
Municipal bonds		$ 251	AA	1.31
Municipal bonds		244	AA+	2.01
Municipal bonds		1,060	AAA	1.27
Total		$ 1,555		
Non-rated/direct investments:				
Primary government				
Govt securities	$ 43,011	$ 42,466		
Component units/fiduciary funds				
Govt securities	$ 267,550	$ 272,616		
Other equities	227,795	236,126		
Repurchase agreement	10,350	10,350		
Deferred compensation	227,637	239,143		
Defined contribution	21,462	24,948		
VEBA	490	494		
Investments of MSU component units	112,244	112,244		
Investments of UM component units	136,143	136,143		
Real estate	16,316	16,474		
Mortgages	92,939	93,811		
Total	$1,155,937	$1,184,815		
Total investments	$1,925,865	$1,970,303		
Securities lending collateral investment pool	$ 200,025	$ 200,025	NR	NA

The PERS-DCRP and the deferred compensation plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC). The third party record keeper, Great West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a rate of return. The PERS-DCRP fixed money is invested in a PIMCO mutual fund. The minimum average portfolio quality must be an A rating; the minimum issue quality must be a BB-rating; and the minimum commercial paper quality must be A2/P2. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. VEBA investments are made in mutual fund equities and mutual fund fixed-income funds.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the AOF fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires AOF fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's and/or Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the following table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005, all the fixed-income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The Equity Index, Real Estate, Mortgage and Loan investments are registered in the name of the Montana Board of Investments. The US Bank Municipal Investors Account, State Street and US Bank repurchase agreements were purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of one fund, the 19 remaining BOI investment policy statements for various state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 percent in any one name except AAA rated issues will be limited to 6%. Investments issued or explicitly guaranteed by the U.S. government and investments by various state agencies are excluded from the concentration of credit risk requirement. As of June 30, 2005, Montana had concentration of credit risk exposure to Federal Home Loan Banks of 7.58% and to Federal National Mortgage Association of 9.44%.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The All Other Funds' investment policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Specific Legal and Credit Risk

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the board. The AOF portfolio holds a $10 million par 6.417% Delta Airlines Corp. bond maturing July 2, 2012. The book value of this security was $9,968,673 as of June 30, 2005. This issue is insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance. The company filed for Chapter 11 bankruptcy protection on September 14, 2005. Since this issue is insured, the board did not stop interest income accrual or reduce the book value.

As of June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the board. The AOF portfolio held a $4,137,515 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020. The book value of this security was $4,084,548 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the board stopped the interest income accruals after the August 2005 pay date. This issue was sold on September 20, 2005, generating a loss of $358,311. The sale included accrued interest from August 1, 2005 to September 20, 2005.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2005, follows (amounts in thousands):

A. Receivables

	Governmental Funds					
Receivables	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	$ 8,116	$ 357	$ -	$ -	$ -	$ -
Taxes	177,303	47,256	-	5,372	-	1,444
Charges for services/ fines/forfeitures	51	8,443	2,802	-	-	-
Investment income	2,162	4,994	-	4,067	5,468	3,299
Contributions/premiums	-	-	-	-	-	-
Other	6,924	10,315	7,143	-	-	785
Total receivables	194,556	71,365	9,945	9,439	5,468	5,528
Less: allowance for doubtful accounts	(8,903)	(6,316)	(1,960)	-	-	-
Receivables, net	$185,653	$65,049	$ 7,985	$9,439	$5,468	$5,528

	Proprietary Funds			
Receivables	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	$ -	$ -	$14,467	$ 166
Investment income	-	10,309	20	33
Contributions/premiums	7,155	-	3,410	3,351
Other	-	-	133	353
Total receivables	7,155	10,309	18,030	3,903
Less: allowance for doubtful accounts	(3,724)	-	(203)	-
Receivables, net	$ 3,431	$10,309	$17,827	$3,903

B. Payables

Payables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Refunds	$ 82,699	$ -	$ -	$-	$ -	$ -
Tax distributions to other govt	-	33,995	-	-	-	-
Vendors/individuals	42,568	44,134	77,634	-	-	1,763
Payroll	11,702	12,437	5,101	-	-	40
Accrued interest	-	-	-	-	5,344	218
Other	490	4,149	1,916	-	-	81
Total	$137,459	$94,715	$84,651	$-	$5,344	$2,102

Payables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/individuals	$342	$ 1	$5,511	$4,872
Payroll	-	10	497	2,012
Accrued interest	-	905	5	6
Total	$342	$916	$6,013	$6,890

NOTE 5. CAPITAL ASSETS

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2005, are reflected in the following table (in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	$ 315,721	$ 47,061	$ (7,925)	$ 354,857
Construction work in progress	179,069	189,268	(166,401)	201,936
Capitalized collections	70,021	12	-	70,033
Total capital assets, not being depreciated	564,811	236,341	(174,326)	626,826
Capital assets, being depreciated				
Infrastructure	2,947,719	346,156	(28,486)	3,265,389
Land improvements	11,947	5,163	(714)	16,396
Buildings/improvements	328,819	39,600	(2,128)	366,291
Equipment	245,908	34,603	(23,374)	257,137
Other	3,395	153	-	3,548
Total capital assets, being depreciated	3,537,788	425,675	(54,702)	3,908,761
Less: accumulated depreciation for:				
Infrastructure	(1,410,841)	(158,912)	90,285	(1,479,468)
Land improvements	(1,462)	(770)	89	(2,143)
Buildings/improvements	(149,649)	(11,698)	509	(160,838)
Equipment	(148,976)	(18,846)	10,875	(156,947)
Other	(2,980)	(206)	4	(3,182)
Total accumulated depreciation	(1,713,908)	(190,432)	101,762	(1,802,578)
Total capital assets, being depreciated, net	1,823,880	235,243	47,060	2,106,183
Intangible assets	20,437	70,265	(18,053)	72,649
Governmental activity capital assets, net	$ 2,409,128	$ 541,849	$(145,319)	$ 2,805,658

Primary Government *(continued)*

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	$ 800	$ -	$ -	$ 800
Construction work in progress	254	613	-	867
Total capital assets, not being depreciated	1,054	613	-	1,667
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	1,387	1,943	(987)	2,343
Buildings/improvements	6,098	-	-	6,098
Equipment	9,876	262	(76)	10,062
Total capital assets, being depreciated	18,245	2,205	(1,063)	19,387
Less: accumulated depreciation for:				
Infrastructure	(488)	(17)	-	(505)
Land improvements	(1,101)	(18)	988	(131)
Buildings/improvements	(3,524)	(593)	363	(3,754)
Equipment	(6,202)	(1,503)	50	(7,655)
Total accumulated depreciation	(11,315)	(2,131)	1,401	(12,045)
Total capital assets, being depreciated, net	6,930	74	338	7,342
Intangible assets	941	8	(288)	661
Business-type activity capital assets, net	$ 8,925	$ 695	$ 50	$ 9,670

Depreciation expense was charged to governmental functions as follows (in thousands):

	Amount
General government	$ 7,262
Public safety/corrections	4,663
Transportation (including depreciation of the highway system maintained by the State)	96,766
Health/social services	2,987
Education/cultural	553
Resource/recreation/environment (including depreciation of the State's dams).	5,690
Economic development/assistance	799
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	11,277
Total depreciation expense – governmental activities	$129,997

Depreciation expense was charged to business-type activities as follows (in thousands):

	Amount
Liquor Stores	$ 97
State Lottery	905
Economic Development Bonds	1
General Government Services	100
Prison Funds	605
Total depreciation expense – business-type activities	$1,708

B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

Discretely Presented Component Units

	Montana State University (MSU)	University of Montana (UM)	Other	Total
Capital assets, not being depreciated				
Land	$ 4,240	$ 7,126	$ -	$ 11,366
Construction work in progress	12,033	13,365	2,661	28,059
Capitalized collections	7,780	15,271	-	23,051
Livestock for educational purposes	2,963	-	-	2,963
Total capital assets, not being depreciated	27,016	35,762	2,661	65,439
Capital assets, being depreciated				
Infrastructure	32,128	-	-	32,128
Land improvements	13,287	12,220	-	25,507
Buildings/improvements	294,928	329,912	-	624,840
Equipment	91,773	47,834	3,080	142,687
Other	57,412	48,031	-	105,443
Total capital assets, being depreciated	489,528	437,997	3,080	930,605
Less: accumulated depreciation	(275,160)	(234,741)	(2,047)	(511,948)
Total capital assets, being depreciated, net	214,368	203,256	1,033	418,657
Intangible assets	781	725	1,078	2,584
Capital assets (net) of MSU component units	7,566	-	-	7,566
Capital assets (net) of UM component units	-	4,967	-	4,967
Discretely presented component units Total capital assets, net	$ 249,731	$ 244,710	$ 4,772	$ 499,213

NOTE 6. RETIREMENT PLANS

Defined Contribution Plans

ORP – Optional Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP, participate in the Teachers Retirement System or the Public Employees Retirement System, benefit plans discussed in the next section. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Required employee contributions were 7.03% of salary; required employer contributions were 4.91% of salary, for a total of 11.9% of salary contributed to the ORP.

	TIAA-CREF *(in thousands)*
Covered payroll	$140,561
Total payroll	301,380
Employer contributions	$ 6,906
Percent of covered payroll	4.91%
Employee contributions	$ 9,882
Percent of covered payroll	7.03%

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, Chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program.

The PERS-DCRP has received a long-term loan through the Montana Department of Administration, with the BOI to fund the plan start-up/implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. Five loan draws were taken in the total amount of $1,498,000. Interest repayments began immediately following the draws. Principal repayments began August 15, 2003, the year following the PERS-DCRP implementation date. The loan was renegotiated as a single sum in fiscal year 2004, to be repaid over a period of 15 years. The interest rate is variable and changes every February, impacting the interest due on the outstanding principal balance.

The PERS-DCRP previously reported an inter-entity loan in the amount of $114,000 that originated on August 18, 2003. The loan was repaid ahead of schedule in December 2004.

For information on the repayment schedules on the loan, please see the separately issued PERS-DCRP financial statements.

Deferred Compensation Plan

457 – Deferred Compensation Plan – The 457 plan was established in 1976 and is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2005, the net assets of the plan were $239,405,278.

The 457 plan is a voluntary, supplemental retirement savings plan. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable

emergency while still employed and must meet IRC-specified criteria. Participant rights are fully vested in their accounts at the time of deposit.

Defined Benefit Plans

A. General

The Public Employees Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans: Public Employees Retirement System (PERS-DBRP), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), Sheriffs Retirement System (SRS), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), and Volunteer Firefighters Compensation Act (VFCA). The board prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, VFCA, as well as the two defined contribution plans, PERS-DCRP and 457 plan. Separately issued financial statements can be obtained at 100 North Park, PO Box 200131, Helena, MT 59620-0131.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education and disability funds.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The plan prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements can be obtained at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

A summary of government employers participating in PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, PERS-DCRP, 457, and TRS by employer type at June 30, 2005, follows:

	Retirement Plan									
	PERS-DBRP	MPORS	FURS	SRS	HPORS	JRS	GWPORS	PERS-DCRP	457	TRS
Employers										
State agencies	35		1	1	1	1	5	27	35	8
Counties	55			55				46		
Cities/towns	95	22	14					40		
Colleges/universities	5						3	5	6	5
School districts	243							79	1	368
Other	97							33	2	
Total	530	22	15	56	1	1	8	230	44	381

B. Plan Descriptions

The State contributes to and/or administers ten plans in two categories: (1) the State as the single employer; and (2) the State as an employer contributor to cost-sharing, multiple-employer plans.

The number of years required to obtain vested rights varies among the plans. All plans provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the plans are included in the tables that follow.

The funding policies for each plan provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-cost method, with both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

(1) State as the Single Employer

HPORS – Highway Patrol Officers Retirement System – This plan, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Members or their survivors may be eligible for an annual supplemental lump sum payment distributed each September. Many factors must be considered for eligibility, including the number of year the recipient has received a benefit and the recipient's age. This lump-sum payment is funded by a registration fee of 25 cents per vehicle registration. The average payment in September 2005 was $2,369. This

enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) members.

JRS – Judges Retirement System – This plan, established in 1967 and governed by Title 19, Chapters 2 & 5 of the MCA, provides retirement benefits for all Montana judges of district courts, justices of the Supreme Court, and the Chief Water Judge.

(2) State as an Employer Contributor to Cost-Sharing, Multiple-Employer Plans

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – This mandatory plan, established in 1945 and governed by Title 19, Chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public plan.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2005, an additional funding rate of 1.58% of payroll would be required to fund the current and projected benefits from the Defined Benefit plan in accordance with GASB standards and state law.

MPORS – Municipal Police Officers Retirement System – The plan, established in 1974 and governed by Title 19, Chapters 2 & 9 of the MCA, covers all municipal police officers of first and second-class cities covered by the plan. It is a cost-sharing defined benefit plan with a special funding situation.

As of July 1, 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of five years and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the plan for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement plan. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service, and the DROP account cannot be distributed until employment is formally terminated.

FURS – Firefighters Unified Retirement System – This plan, established in 1981 and governed by Title 19, Chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second-class cities and other cities that adopt the plan and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. It is a multiple-employer, cost-sharing defined benefit plan.

SRS – Sheriffs Retirement System – This plan, established in 1974 and governed by Title 19, Chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993 and all Montana sheriffs.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 2.69% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

GWPORS – Game Wardens & Peace Officers Retirement System – This plan, established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS, or MPORS plans.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it

is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 0.26% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

VFCA – Volunteer Firefighters Compensation Act – This compensation program, established in 1965 and governed by Title 19, Chapters 2 and 17 of the MCA, provides pension, disability and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas of the state. VFCA also provides limited medical expenses for injuries incurred in the line of duty. VFCA is a plan with a special funding situation.

The 2003 Legislature amended the law so that members of the VFCA can accumulate more than 20 years of service beginning when they are age 55, if they already have 20 years of service (effective July 1, 2003).

TRS – Teachers Retirement System – This mandatory plan, established in 1937 and governed by Title 19, Chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The plan's actuary has determined that as of July 1, 2005, the current employer contribution rate of 7.47% plus the General Fund contribution of 0.11% of members' salaries are insufficient to meet the actuarial cost. The unfunded actuarial accrued liability of $903.3 million is included in the Schedules of Funding Progress. Based on the results of the July 1, 2005 valuation, the TRS Board will recommend options to the Legislature that are considered necessary to remain actuarially sound.

In addition, because actuarial gains and losses are smoothed over five years, only one-fifth of each previous year's actuarial loss has been recognized in the amortization period as of July 1, 2005, leaving almost $10 million in unrecognized investment losses, which must be recognized over the next three to four years. Therefore, to remain actuarially sound for future years, the retirement plan will need to incur future gains that would result from a significant recovery in the investment market, a reduction in liabilities, additional increases in contribution rates, or any combination thereof.

A brief summary of contribution rates, eligibility and benefits for each retirement plan is provided in the tables on the following three pages.

Schedule of Contribution Rates
Fiscal Year 2005

Plan	Member	Employer	State
PERS-DBRP	**6.9%** [19-3-315, MCA]	**6.9%** State & University **6.8%** Local Governments [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund [19-3-319, MCA]
MPORS	**5.8%** - hired on or before 6/30/1975 & not electing GABA [19-9-710(a), MCA] **7.0%** - hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA [19-9-710(b), MCA] **8.5%** - hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA [19-9-710(c), MCA] **9.0%** - hired after 6/30/1997 & members electing GABA [19-9-710(d), MCA]	**14.41%** [19-9-703, MCA]	**29.37%** of salaries – paid from the General Fund [19-9-702, MCA]
FURS	**9.5%** - hired prior to 7/1/1997 & not electing GABA [19-13-601(2)(a), MCA] **10.7%** - hired after 6/30/1997 & members electing GABA [19-13-601(2)(b), MCA]	**14.36%** [19-13-605, MCA]	**32.61%** of salaries – paid from the General Fund [19-13-604, MCA]
SRS	**9.245%** [19-7-403, MCA]	**9.535%** [19-7-404, MCA]	
HPORS	**9.0%** - hired prior to 7/1/1997 & not electing GABA **9.05%** - hired after 6/30/1997 & members electing GABA [19-6-402, MCA]	**26.15%** [19-6-404(1), MCA] **10.18%** of salaries – paid from driver license fees [19-6-404(2), MCA]	
JRS	**7.0%** [19-5-402, MCA]	**25.81%** [19-5-404, MCA]	
GWPORS	**10.56%** [19-8-502, MCA]	**9.0%** [19-8-504, MCA]	
VFCA			**5.0%** of fire insurance premiums, paid by the General Fund [19-17-301, MCA]
PERS-DCRP	**6.9%** [19-3-315, MCA]	**6.9%** State & University **6.8%** Local Governments [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund [19-3-319, MCA]
TRS	**7.15%** [19-20-602, MCA]	**7.47%** [19-20-605, MCA]	**0.11%** of members' salaries [19-20-604, MCA]

Summary of Eligibility and Benefits

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
PERS-DBRP	Highest average compensation during any consecutive 36 months	Service retirement: 30 years, any age; Age 60, 5 years of service; or Age 65, regardless of service Early retirement, actuarially reduced: Age 50, 5 years of service; or Any age, 25 years of service	5 years membership service
MPORS	Hired prior to 7/1/1977 – average monthly compensation of final year of service; hired after 6/30/1977 – average monthly compensation for last consecutive 36 months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
FURS	Hired prior to 7/1/1981 and not electing GABA – final monthly compensation (FMC); hired after 6/30/1981 and those electing GABA – final average compensation (FAC) for last 36 consecutive months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
SRS	Highest average compensation during any consecutive 36 months	20 years, regardless of age; age 50, 5 years of service, actuarially reduced	5 years membership service
HPORS	Highest average compensation during any consecutive 36 months	20 years of service, regardless of age; 5 years of service, actuarially reduced from age 60	5 years membership service
JRS	Hired prior to 7/1/1997 and non-GABA – monthly compensation at time of retirement; hired after 6/30/1997 or electing GABA – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	Age 60, 5 years of service; any age with 5 years of service – involuntary termination, actuarially reduced	5 years membership service
GWPORS	Highest average compensation during any consecutive 36 months	Age 50, 20 years of service; age 55, 5 years of service	5 years membership service
VFCA		Age 55, 20 years of credited service (full benefit); age 60, 10 years of service (partial benefit). As of 4/25/2005 (Senate Bill 197), members may retire with greater than 20 years of service, but not more than 30 years of service.	10 years of service credit
PERS-DCRP		Termination of service	Immediate for member's contributions and attributable income; 5 years for employer's contributions and attributable income
TRS	Final average compensation during any consecutive 36 months	Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits.	5 years

Summary of Eligibility and Benefits *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	Less than 25 years of service: 1.785% of HAC per year of service credit; 25 years of service or more: 2% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit.	
MPORS	2.5% of FAC per year of service	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed officer in the city that the member was last employed.
FURS	Members hired prior to 7/1/1981 and not electing GABA are entitled to the greater of: 2.5% of FAC per year of service; or (1) if less than 20 years of service, 2% of FMC for each year of service; or (2) if more than 20 years of service, 50% of the member's FMC plus 2% of the member's FMC for each year of service over 20 years. Members hired after 6/30/1981 and those electing GABA receive 2.5% of FAC per year of service.	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of service credit).
SRS	2.5% of HAC per year of service	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	
HPORS	2.5% of HAC per year of service	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit.	Hired prior to 7/1/1997 – monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.
JRS	3 1/3% of current salary (non-GABA) or HAC (GABA) per year of service for the first 15 years, plus 1.785% per year for each year after 15 years	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other benefit adjustments to the members.	Hired prior to 7/1/1997 – current salary is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.
GWPORS	2.5% of HAC per year of service	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	
VFCA	$7.50 per year of credited service, maximum $150; if greater than 20 years of service (but not more than 30 years), maximum $225		
PERS-DCRP	varies		
TRS	1.6667% of average final compensation (AFC) per year of service		

C. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refund distributions are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the defined benefit retirement plans. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement plans have no investments with a single issuer whose fair value equals 5% or more of the retirement plans net assets available for benefits.

E. Long-term Contracts for Contributions

The Montana Legislature also provided a provision of the Employee Protection Act (EPA) (MCA 19-2-706, allowing state and university system employees, eligible for a service retirement, whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1 for 5" additional service. As of June 30, 2005, 323 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2005 were $154,058. June 30, 2005, outstanding balances were $68,549.

F. Actuarial Data

Actuarial valuations are normally performed every two years. An additional valuation was performed July 2005, to provide the Legislature with updated information on the funding issue. Further disclosure can be found in Note 18.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Plans, the following postemployment benefits are provided:

The State and the Montana University System provide 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2005, 77 certificate holders were receiving these benefits for the State of Montana, 109 for the Montana University System.

In accordance with MCA 2-18-704, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement plan (See Note 6). Administratively established retiree medical premiums vary between $195 and $625 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $28.60 and $46.60, and vision premiums vary between $8.44 and $21.94 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2005, there were 3,256 retirees covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. Vision services are provided at prices ranging from a $10 copay to a $120 allowance depending on the services obtained and the network status of the provider. Vision coverage is fully insured; therefore premium contributions reflect the total cost to the State during the year. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs. During the fiscal year, expenditures of $20,241,412 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to $15,043,619 leaving $5,197,793 of claims paid in excess of premium revenue received by the State.

In accordance with MCA 2-18-702, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least five years. Spouses, unmarried dependent children, and surviving spouses are also eligible.

Administratively established premiums vary between $235 and $580 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual $575 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 65% to 80% of the first $10,000 in medical claims and 100% thereafter. After a $400 deductible for Medicare-eligible retirees, the plan reimburses 65% to 80% for the first $5,000 in medical claims and 100% thereafter. There is an optional $1500 deductible plan available to retirees with a reduced premium. This plan has a small enrollment (54 enrollees). After the $1500 annual deductible, the plan pays 65% to 80% of the first $8,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2005, 1,361 retirees were enrolled in the MUS plan.

Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2005, estimated expenditures of $6,801,059 were recognized for postemployment health care benefits. Of this amount, $6,232,468 was paid by retirees through premiums, and the balance of $568,591 was paid by the MUS.

NOTE 8. RISK MANAGEMENT

There are four primary government public entity risk pools that are reported within the enterprise fund type and two component unit public entity risk pools. Primary government pools include Hail Insurance, Subsequent Injury, the Montana University System (MUS) Group Benefits Plan, and the Montana University System Workers Compensation funds; component unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,437 policies during the 2005 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

The fund recorded a liability of $191,013 based on estimated claims through June 30, 2005. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury – This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period. In Montana, there are 3,609 individuals with certified disabilities.

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2005, the amount of this liability was estimated to be $2,665,050.

(3) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, and vision insurance. Blue Cross/Blue Shield of Montana is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services and Peak administers claims for the two other managed care plans. Managed Care Montana has a contract for utilization management: the utilization management program consists of hospital pre-authorization, case management, and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Buck Consultants and estimated to be $4,619,167 as of June 30, 2005, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(4) Montana University System (MUS) Workers Compensation Program – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers compensation coverage under Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers compensation coverage through the State Compensation Insurance Fund. The program is self-insured for workers compensation claims to a maximum of $500,000 per each occurrence. Losses in excess of $500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $500,000. During 2005, the program ceded $196,776 in premiums to reinsurers.

Premium rates for all participating employees are based on rates established by the MUS Workers Compensation Program Committee. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of $3,138,095 for estimated claims in 2005. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(5) State Compensation Insurance (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At June 30, 2005, approximately 27,527 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2005, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2005, $511,600,000 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2005, was $1,300,000. For the fiscal year ended June 30, 2005, $1,100,000 of acquisition costs were amortized.

Statute requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

(6) State Compensation Insurance (Old Fund) – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2005, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2005, $104,900,000 of unpaid claims and claim adjustment expenses were reported at a net present value of $79,100,000, discounted at a 5.0% rate.

(7) Changes in Claims Liabilities For the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Primary Government					
	Hail Insurance		Subsequent Injury		MUS Group Benefits	
	2005	2004	2005	2004	2005	2004
Unpaid claims and claim adjustment expenses at beginning of year	$ 95	$ 298	$2,363	$2,364	$ 4,663	$ 3,444
Incurred claims and claim adjustment expenses: provision for insured events of the current year	1,978	1,164	-	-	37,533	35,451
Increase (decrease) in provision for Insured events of prior years	(285)	(184)	668	205	(44)	1,219
Total incurred claims and claim adjustment expenses	1,693	980	668	205	37,489	36,670
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(1,502)	(885)	(31)	(29)	(37,533)	(35,451)
Claims and claim adjustment expenses attributable to insured events of prior years	(95)	(298)	(335)	(177)	-	-
Total payment	(1,597)	(1,183)	(366)	(206)	(37,533)	(35,451)
Total unpaid claims and claim adjust. exp. at end of the year	$ 191	$ 95	$2,665	$2,363	$ 4,619	$ 4,663

	Primary Government		Component Units			
	MUS Workers Compensation Program		State Compensation Insurance (New Fund)		State Compensation Insurance (Old Fund)	
	2005	2004	2005	2004	2005	2004
Unpaid claims and claim adjustments expenses at beginning of year	$1,622	$ -	$452,115	$413,400	$108,500	$113,181
Incurred claims and claim adjustment expenses: Provision for insured events of the current year	2,366	2,174	149,542	136,059	-	-
Increase (decrease) in provision for insured events of prior years	-	-	10,070	13,568	6,691	8,215
Total incurred claims and claim adjustment expenses	2,366	2,174	159,612	149,627	6,691	8,215
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(382)	(552)	(25,721)	(34,575)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(468)	-	(74,449)	(76,337)	(10,339)	(12,896)
Total payments	(850)	(552)	(100,170)	(110,912)	(10,339)	(12,896)
Total unpaid claims and claim adjust. exp. at end of the year	$3,138	$1,622	$511,557	$452,115	$104,852	$108,500

(8) Risk Management Trend Information – The following tables only present risk management trend information for the State Compensation Insurance (New Fund) and the MUS Workers Compensation Insurance. Both funds have a three to five-year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

	MUS Workers Compensation Program	
	2004	2005
1. **Premiums and investment revenue**		
Earned	$2,425	$3,048
Ceded	151	197
Net earned	$2,274	$2,851
2. **Unallocated expenses including overhead**	$ 227	$ 280
3. **Estimated losses and expenses end of accident year**		
Incurred	$2,174	$2,366
Ceded	-	-
Net incurred	$2,174	$2,366
4. **Net paid (cumulative) as of:**		
End of policy year	$ 552	$ 382
One year later	1,020	-
5. **Re-estimated ceded losses and expenses**	$ -	$ -
6. **Re-estimated net incurred losses and expense:**		
End of policy year	$2,174	$2,366
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$ -	$ -

(State Compensation Insurance (New Fund) Table presented on next page)

State Compensation Insurance (New Fund)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1. Premiums and investment revenue										
Earned	$137,914	$105,177	$90,544	$82,436	$91,220	$116,056	$129,353	$165,581	$172,961	$162,861
Ceded	519	348	303	260	855	2,952	(465)	5,654	6,563	6,788
Net earned	$137,395	$104,829	$90,241	$82,176	$90,365	$113,104	$129,818	$159,927	$166,398	$156,073
2. Unallocated expenses including overhead	$ 17,451	$ 12,622	$14,444	$19,050	$22,101	$ 26,867	$ 29,528	$ 32,830	$ 40,130	$ 44,865
3. Estimated losses and expenses end of accident year										
Incurred	$ 95,067	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	$ 95,067	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$134,290
4. Net paid (cumulative) as of:										
End of policy year	$ 15,818	$ 12,589	$12,943	$13,723	$13,177	$ 14,140	$ 16,693	$ 22,982	$ 26,123	$ 25,721
One year later	32,890	28,451	28,222	29,976	29,218	32,888	38,185	48,861	50,888	
Two years later	42,361	35,706	35,753	39,298	37,555	45,218	52,359	63,773		
Three years later	47,283	39,860	41,004	45,748	43,649	55,248	60,029			
Four years later	50,267	43,105	44,478	49,984	48,322	61,486				
Five years later	52,791	46,478	47,584	54,212	52,027					
Six years later	54,962	48,505	50,188	56,974						
Seven years later	57,654	50,402	52,240							
Eight years later	59,193	52,285								
Nine years later	60,825									
5. Re-estimated ceded losses and expenses	$ -	$ 6,645	$ 609	$ 1,940	$ -	$ -	$ -	$ -	$ -	$ -
6. Re-estimated net incurred losses and expense:										
End of policy year	$ 95,067	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705	$127,883
One year later	88,923	67,235	64,308	64,348	66,421	71,094	86,799	110,532	112,609	
Two years later	77,286	59,054	60,467	66,660	66,662	81,053	91,241	112,443		
Three years later	73,864	60,811	61,989	69,345	70,302	88,157	94,615			
Four years later	74,022	64,439	64,944	72,435	72,492	92,329				
Five years later	73,197	59,079	67,312	73,710	73,423					
Six years later	74,329	60,528	67,772	73,537						
Seven years later	76,955	60,630	68,601							
Eight years later	76,849	60,774								
Nine years later	77,029									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	$(18,038)	$ (15,293)	$ 3,618	$10,893	$ 7,466	$ 24,061	$ 13,055	$ 2,290	$ (8,096)	$ (6,407)

B. Entities Other Than Pools

(1) Employee Group Benefits – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, and New West for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2005, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, were $11,675,008 based on a formula provided by Buck Consultants, a consulting actuarial firm, of which $9,328,724 is estimated to be paid in fiscal year 2006.

(2) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure housing units. The State self-insures the $250,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below $250,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects approximately $2.7 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $250,000 for earthquake and $250,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1994 through June 30, 2005, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2005, estimated claims liability is $20,327,474.

(3) Changes in Claims Liabilities For the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Benefits		Administration Insurance	
	2005	2004	2005	2004
Amount of claims liabilities at the beginning of each fiscal year	$ 11,195	$ 11,487	$25,558	$30,927
Incurred claims:				
Provision for insured events of the current year	76,725	70,164	6,356	7,723
Increases (decreases) in provision for insured events of prior years	480	(290)	(5,535)	(8,651)
Total incurred claims	77,205	69,874	821	(928)
Payments:				
Claims attributable to insured events of the current year	(70,299)	(64,699)	(819)	(816)
Claims attributable to insured events of prior years	(6,426)	(5,467)	(5,232)	(3,625)
Total payments	(76,725)	(70,166)	(6,051)	(4,441)
Total claims liability at end of each fiscal year	$ 11,675	$ 11,195	$20,328	$25,558

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2005, the Department of Transportation had contractual commitments of approximately $197.6 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2005, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $20.6 million for capital projects construction. The primary government will fund $7.2 million of these projects, with the remaining $13.4 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Fund. These commitments have expiration dates and may be extended according to the BOI's policies. As of June 30, 2005, the BOI had committed but not yet purchased $78,813,735 in loans from Montana lenders. In addition to the above commitments, lenders had reserved $28,884,945 for loans as of June 30, 2005.

The BOI makes firm commitments to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2005, the BOI had committed but not yet purchased from Montana lenders, mortgages totaling $2,145,343. As of June 30, 2005, mortgage reservations totaled $1,683,900.

D. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

	Amount
Enterprise funds	
Prison Industries	$ 421
Liquor Warehouse	162
Historical Society Publications	15
MUS Group Insurance	2
Subtotal-enterprise funds	$ 600
Internal service funds	
Buildings and Grounds	$ 578
FWP Equipment	129
Investment Division	64
Admin Supply	59
DEQ Indirect Cost Pool	35
Commerce Central Services	13
Other Internal Services	1
Subtotal-internal service funds	$ 879
Total	$1,479

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2005, were as follows (in thousands):

	Primary Government	Discretely Presented Component Units		
Fiscal Year Ending June 30	Governmental Activities	Montana State University	University of Montana	Total
2006	$1,029	$29	$241	$270
2007	784	20	214	234
2008	295	1	70	71
2009	151	-	39	39
2010	129	-	1	1
2011-2015	645	-	-	-
Total minimum pmts	3,033	50	565	615
Less: interest	(328)	(9)	(66)	(75)
Present value of minimum payments	$2,705	$41	$499	$540

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2005 totaled $12,561,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2006	$14,368	$ 1,470
2007	10,484	1,117
2008	9,238	1,032
2009	8,437	861
2010	6,965	716
2011-2015	25,255	3,380
2016-2020	8,632	2,009
2021-2025	522	-
Total future rental payments	$83,901	$10,585

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued. No revenue anticipation notes were issued during fiscal year 2005.

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $120 million as amended by the 2003 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from repayments of principal and interest on loans made by the BOI to participating eligible governmental units, investment income under the indenture, and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2005, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2005
1994	7,500	$ 6,810
1995	7,500	6,995
1997	10,000	9,690
1998	12,500	12,285
2000	15,000	15,000
2003	15,000	15,000
2004	18,500	18,500
Total		$84,280

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2005 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$90,555	$-	$6,275	$84,280

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2005, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2006	Principal Payments In Year of Maturity (2)	Balance June 30, 2005
General obligation bonds						
Energy Conservation Program (3)	1996A	$ 1,650	3.5-4.4	$ 195	195 (2006)	$ 195
Wastewater Treatment Works Revolving Fund (4)	1996C	2,765	3.75-5.75	140	120 (2017)	1,905
Renewable Resource Program (5)	1997A	2,000	6.8-8.0	125	90 (2012)	1,000
Long-Range Bldg Program	1997B	12,640	4.5-5.0	865	945 (2008)	2,715
Wastewater Treatment Works Revolving Fund (4)	1998A	3,510	3.75-5.15	145	260 (2019)	2,745
Long-Range Bldg Program	1998B	34,545	4.2-5.1	1,490	2,555 (2018)	25,550
Information Technology	1998C	41,390	4.5-5.0	3,750	4,075 (2008)	11,730
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	1,165	1,720 (2015)	14,060
Energy Conservation Program (3)	1998E	1,250	3.6-4.6	135	150 (2008)	425
Renewable Resource Program (5)	1999	1,035	6.0-6.5	60	105 (2015)	790
Long-Range Bldg Program	1999C	16,990	4.0-5.0	695	785 (2009)	2,950
Drinking Water Revolving Fund (4)	1998F	3,065	3.6-4.85	130	230 (2019)	2,465
Drinking Water Revolving Fund (4)	2000A	2,990	4.25-5.6	105	240 (2021)	2,605
Water Pollution Control Revolving Fund (4)	2000B	3,325	4.25-5.6	120	270 (2021)	2,905
Long-Range Bldg Program	2000C	17,195	5.0-5.55	610	800 (2011)	4,225
Information Technology	2000D	18,000	5.0-5.25	1,830	1,830 (2006)	1,830
Long-Range Bldg Program	2001B	11,430	4.1-5.75	415	830 (2021)	9,475
Information Technology	2001C	1,600	3.85-4.2	150	185 (2011)	1,000
Energy Conservation Program (3)	2001D	1,250	3.85-4.2	115	145 (2011)	775
Renewable Resource Program (5)	2001E	1,040	5.2-6.8	55	105 (2017)	900
Drinking Water Revolving Fund (4)	2001G	3,190	4.0-5.0	120	235 (2022)	2,870
Water Pollution Control Revolving Fund (4)	2001H	2,690	4.0-5.0	100	200 (2022)	2,415
Long-Range Bldg Program	2002B	10,475	3.35-4.7	415	730 (2023)	9,705
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	85	200 (2023)	2,355
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,285	1,685 (2014)	13,205
Long-Range Bldg Program	2003A	9,730	2.37-4.0	400	655 (2024)	9,410
Energy Conservation Program (3)	2003B	1,250	2.0-3.0	115	145 (2014)	1,145
Renewable Resource Program Refunding (5)	2003C	1,970	1.45-5.25	410	90 (2019)	1,530
Water Pollution Control Revolving Fund (4)	2003D	2,730	2.0-3.75	155	225 (2019)	2,585
Drinking Water Revolving Fund (4)	2003E	1,675	2.0-3.75	95	140 (2019)	1,585
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,105	2,310 (2017)	24,640
Information Technology Refunding	2003H	8,725	2.0-4.0	90	2,225 (2010)	8,560
Water Pollution Control Revolving Fund (4)	2004A	2,665	2.0-3.8	125	230 (2020)	2,665
Long-Range Bldg Program	2004B	3,125	3.0-4.75	130	170 (2025)	3,125
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	-	1,205 (2019)	14,945
Long-Range Bldg Program	2005B	1,670	3.25-4.3	-	120 (2026)	1,670
Energy Conservation Program (3)	2005C	2,500	3.25-4.0	-	290 (2016)	2,500
CERCLA Program (6)	2005D	2,000	3.25-4.3	-	140 (2026)	2,000
Drinking Water Revolving Fund (4)	2005F	3,875	4.0-4.75	-	350 (2021)	3,875
Water Pollution Control Revolving Fund (4)	2005G	2,110	4.0-4.75	-	190 (2021)	2,110
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	120	1,300 (2020)	10,055
Total general obligation bonds		$322,820		$18,045		$213,195

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2006	Principal Payments In Year of Maturity (2)	Balance June 30, 2005
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 845	1,820 (2022)	$ 21,555
Renewable Resource Program (8)	1997A	1,205	6.0-7.3	45	110 (2018)	950
Renewable Resource Program (8)	1997B	2,660	3.75-5.37	110	210 (2018)	2,020
Renewable Resource Program (8)	2001A	420	3.65-5.59	15	30 (2021)	360
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	55	150 (2021)	1,550
Renewable Resource Program Refunding (8)	2001C	12,155	2.55-4.3	1,345	790 (2013)	4,950
Broadwater Power Proj Refunding (8)	2001D	21,450	2.25-4.7	1,135	1,795 (2018)	18,380
Renewable Resource Program (8)	2001E	885	2.1-4.85	35	65 (2022)	790
Renewable Resource Program (8)	2001F	900	3.3-6.2	30	75 (2022)	820
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	570	970 (2019)	10,425
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	110	215 (2024)	2,890
Renewable Resource Program Refunding (8)	2004A	5,070	2.15-2.95	1,230	500 (2010)	4,860
Renewable Resource Program (8)	2004B	430	4.45-5.45	20	40 (2020)	430
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	4,960	11,315 (2020)	122,795
Total special revenue bonds		$210,145		$10,505		$192,775
Notes payable						
Water Conservation (Little Dry Project) (10)		$ 50	5.0	$ 2	1 (2012)	$ 16
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	24
Middle Creek Dam Project (11)		3,272	8.125	48	203 (2034)	2,838
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	9,561
Total notes payable		$ 14,672		$ 342		$ 12,439
Subtotal governmental activities, before deferred balances						418,409
Deferred amount on refunding						(6,322)
Unamortized discount						(158)
Unamortized premium						9,680
Total governmental activities		$547,637		$28,892		$421,609
Business-type Activities						
Bonds/notes payable						
Economic Development Bonds (13)						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	$ 4,976	6.60-7.75	$ 450	70 (2014)	$ 880
Conservation Reserve Enhancement Program (CRP Bonds) (15)		3,028	6.0-8.0	1,024	33 (2009)	3,028
Subtotal economic dev bonds		8,004		1,474		3,908
MUS Workers Compensation Bonds Payable		2,050	2.8	410	430 (2008)	1,260
Total business-type activities		$ 10,054		$ 1,884		$ 5,168

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

(4) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(5) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event there are not sufficient cost recovery payments.

(7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.

(8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.

(9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.

(10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans. In the fiscal year 2004 CAFR, the Little Dry Project Loan was incorrectly listed as a special revenue bond and the Petrolia Project Loan was incorrectly excluded from the long-term debt reported.

(11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes $224,944 of interest owed.

(12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

(13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.

(14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.

(15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2005, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 18,045	$ 8,283	$ 10,505	$ 9,914	$ 342	$ 47
2007	18,775	7,808	10,485	8,584	343	46
2008	19,335	7,056	10,500	8,196	345	45
2009	15,075	6,372	11,575	7,710	347	44
2010	15,620	5,774	11,620	7,202	349	43
2011-2015	69,420	20,286	62,415	27,808	1,781	200
2016-2020	46,890	6,793	70,865	11,575	1,878	168
2021-2025	9,775	756	4,810	356	1,973	130
2026-2030	260	6	-	-	2,098	83
2031-2035	-	-	-	-	2,114	24
2036-2040	-	-	-	-	869	-
Total	$213,195	$63,134	$192,775	$81,345	$12,439	$830

Business-type Activities

Year Ended June 30	Economic Development Bonds		MUS Workers Compensation Bonds	
	Principal	Interest	Principal	Interest
2006	$1,474	$251	$ 410	$35
2007	1,005	164	420	24
2008	1,051	97	430	12
2009	78	27	-	-
2010	50	21	-	-
2011-2015	250	40	-	-
Total	$3,908	$600	$1,260	$71

Debt service requirements of discretely presented component units at June 30, 2005, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 9,855	$ 38,874	$ 5,078	$ 4,101	$ 4,720	$ 6,762
2007	12,490	38,287	4,117	3,883	4,912	6,586
2008	13,175	37,790	3,468	4,960	5,099	6,421
2009	14,100	37,229	3,266	5,161	5,013	6,239
2010	14,450	36,607	3,265	5,185	4,800	6,057
2011-2015	86,055	171,862	21,754	18,844	27,213	27,028
2016-2020	110,505	148,162	29,390	11,108	33,949	19,858
2021-2025	141,465	115,980	19,445	4,960	42,475	9,291
2026-2030	178,310	73,592	6,295	2,331	7,300	1,703
2031-2035	149,075	27,830	6,710	872	3,135	296
2036-2040	24,715	4,124	-	-	-	-
2041-2045	6,950	482	-	-	-	-
Total	$761,145	$730,819	$102,788	$61,405	$138,616	$90,241

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2005, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	$219,645	$ 37,155	$ 43,605	$213,195	$18,045	$195,150
Special revenue bonds (2)	76,350	128,295	11,870	192,775	10,505	182,270
Notes payable (3)	12,850	-	411	12,439	342	12,097
	308,845	165,450	55,886	418,409	28,892	389,517
Deferred amount on refunding	(5,438)	(1,577)	(693)	(6,322)	-	(6,322)
Unamortized discount	(161)	-	(3)	(158)	-	(158)
Unamortized premium	1,880	8,106	306	9,680	-	9,680
Total bonds/notes payable	305,126	171,979	55,496	421,609	28,892	392,717
Other liabilities						
Lease/installment purchase payable (4)	2,313	1,311	919	2,705	885	1,820
Compensated absences payable (1)	75,005	37,332	38,934	73,403	38,925	34,478
Early retirement benefits payable (1)	215	-	161	54	6	48
Arbitrage rebate tax payable (1)	77	21	45	53	-	53
Estimated insurance claims (1)	36,753	83,561	88,311	32,003	16,264	15,739
Total other liabilities	114,363	122,225	128,370	108,218	56,080	52,138
Total govemmental activities Long-term liabilities	$419,489	$294,204	$183,866	$529,827	$84,972	$444,855
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	$ 6,287	$ 177	$ 2,556	$ 3,908	$ 1,474	$ 2,434
MUS Workers Compensation	1,655	-	395	1,260	410	850
Total bonds/notes payable	7,942	177	2,951	5,168	1,884	3,284
Other liabilities						
Compensated absences payable	1,228	510	593	1,145	592	553
Arbitrage rebate tax payable	140	72	98	114	-	114
Estimated insurance claims	8,743	42,545	40,675	10,613	7,414	3,199
Total other liabilities	10,111	43,127	41,366	11,872	8,006	3,866
Total business-type activities Long-term liabilities	$ 18,053	$ 43,304	$ 44,317	$ 17,040	$ 9,890	$ 7,150

(1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

(2) Governmental activities special revenue bonds beginning balance has been reduced by $18,000 to reflect that the Little Dry Project loan has been reclassified to governmental activities notes payable.

(3) Governmental activities notes payable beginning balance has been increased by $43,000 to reflect that the Little Dry Project loan has been reclassified from governmental activities special revenue bonds in the amount of $18,000 and to reflect the Petrolia Project loan that existed prior to fiscal year 2005, but was not previously reported (in the amount of $25,000).

(4) Governmental activities lease/installment purchase payable beginning balance has been reduced by $19,000 to reflect a correction for lease balances reported incorrectly in fiscal 2004.

Long-term liability activity of discretely presented component units for the year ended June 30, 2005, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	$ 630,955	$216,360	$ 82,101	$ 765,214	$ 9,855	$ 755,359
Montana State University (MSU)	87,254	56,208	35,912	107,550	5,078	102,472
University of Montana (UM)	139,996	684	3,874	136,806	4,720	132,086
Total bonds/notes payable	858,205	273,252	121,887	1,009,570	19,653	989,917
Other liabilities						
Lease/installment purch pay	889	138	487	540	229	311
Compensated absences pay	42,774	21,324	19,341	44,757	19,600	25,157
Arbitrage rebate tax payable	1,024	281	43	1,262	443	819
Estimated insurance claims	532,893	168,282	110,509	590,666	121,189	469,477
Due to federal government	30,242	382	18	30,606	-	30,606
Total other liabilities	607,822	190,407	130,398	667,831	141,461	526,370
	$1,466,027	$463,659	$252,285	$1,677,401	$161,114	$1,516,287
Long-term liabilities of MSU component units					358	1,714
Long-term liabilities of UM component units					572	222
Total discretely presented component units Long-term liabilities					$162,044	$1,518,223

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2005, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on general obligation bonds: $1,590,000 of Series 1994B Wastewater Treatment Works Revolving Fund (these bonds were paid in full) and $315,000 of Series 1997A Renewable Resource Program.

DNRC also used current available resources to make the following pre-payments on special revenue bonds: $450,000 of Series 1996A Renewable Resource Program Refunding (this series was also refunded in the fiscal year – see below) and $210,000 of Series 2004A Renewable Resource Program Refunding.

Advance Refundings

On December 15, 2004, DNRC issued $5,070,000 of Series 2004A Renewable Resource Program Refunding special revenue bonds to advance refund $5,465,000 of Series 1996A Renewable Resource Program Refunding special revenue bonds. The net proceeds of $4,997,852 (after payment of $72,148 in underwriting fees and other issuance costs) plus an additional $499,317 of certain other available funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 1996A bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of $318,403 and an economic gain of $240,775.

On February 1, 2005, the Department of Administration (DofA) issued $14,945,000 of Series 2005A General Obligation Long-Range Building Program Refunding bonds to advance refund $4,800,000 of Series 1997B Long-Range Building Program bonds, callable on August 1, 2007, maturing in 2008 and thereafter, and $10,170,000 of Series 1999C Long-Range Building Program bonds, callable on August 1, 2008, maturing in 2009 and thereafter. The net proceeds of $15,675,227 (including a reoffering premium of $933,116 and after payment of $202,889 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 1997B Long-Range Building Program bonds, callable on August 1, 2007, maturing in 2008 and thereafter, and the Series 1999C Long-Range Building Program bonds, callable on August 1, 2008, maturing in 2009 and thereafter are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of $751,667 and an economic gain of $593,601.

On May 5, 2005, DofA issued $10,055,000 of Series 2005H General Obligation Long-Range Building Program Refunding bonds to advance refund $9,580,000 of Series 2000C Long-Range Building Program bonds callable on August 1, 2010, maturing in 2011 and thereafter. The net proceeds of $10,419,652 (including a reoffering premium of $501,926 and after payment of $137,274 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 2000C Long-Range Building Program bonds callable on August 1, 2010, maturing in 2011 and thereafter, are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of $495,341 and an economic gain of $387,885.

Deferred loss on primary government refundings at June 30, 2005, was $6,322,000.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2005, $60,670,000 of bonds outstanding are considered defeased.

Discretely Presented Component Units

Defeased Debt Outstanding

Montana State University and the University of Montana have defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2005, $4,355,000 and $47,236,073 of bonds outstanding are considered defeased for Montana State University and the University of Montana, respectively.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Primary Government

Montana Board of Investments (BOI)

Under the Economic Development Act, the BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2005, industrial revenue bonds outstanding aggregated $204.6 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2005, QZAB debt outstanding aggregated $4.3 million.

Neither the industrial revenue bonds, nor the QZAB debt issued by the BOI constitutes a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2005, was as follows: Hershberger Project – issued $129,412, outstanding $122,178; Young Project – issued $223,300, outstanding $216,472.

Discretely Presented Component Units

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2005, revenue bonds outstanding aggregated $616 million, and notes payable outstanding aggregated $11 million.

The Board of Investments and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16.C. (miscellaneous contingencies) for more information.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also includes the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2005, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds
Due From Other Funds						
Coal Severance Tax Permanent	$ -	$ -	$ -	$ -	$ -	$ -
Economic Development Bonds	-	-	-	-	2,140	-
Federal Special Revenue	-	-	-	171	26	-
General Fund	6,421	1	614	-	65	8,754
Internal Service Funds	38	2	1,327	1,834	239	142
Nonmajor Enterprise Funds	-	-	6	93	9	-
Nonmajor Governmental Funds	-	-	574	6	-	-
State Special Revenue	-	-	659	14,294	29	71
Total	$6,459	$3	$3,180	$16,398	$2,508	$8,967

	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Unemployment Insurance	Total
Due From Other Funds *(continued)*					
Coal Severance Tax Permanent	$ 4	$ -	$ -	$ -	$ 4
Economic Development Bonds	-	26	1,529	-	3,695
Federal Special Revenue	-	-	355	65	617
General Fund	5	-	24,160	-	40,020
Internal Service Funds	12	-	1,881	-	5,475
Nonmajor Enterprise Funds	-	-	28	-	136
Nonmajor Governmental Funds	-	-	9	-	589
State Special Revenue	2,709	-	-	-	17,762
Total	$2,730	$26	$27,962	$65	$68,298

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2005, consisted of the following (in thousands):

	Interfund Loans Payable					
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Interfund Loans Receivable						
Federal Special Revenue	$ -	$ 100	$ -	$ -	$ 450	$ 550
General Fund	15,815	1,329	-	382	1,774	19,300
Internal Service Funds	436	-	146	-	25	607
Nonmajor Enterprise Funds	9	-	-	-	-	9
State Special Revenue	12,363	1,002	-	-	-	13,365
Total	$28,623	$2,431	$146	$382	$2,249	$33,831

C. Advances To/From Other Funds

Advances to/from other funds represents the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also includes the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2005, consisted of the following (in thousands):

	Advances From Other Funds					
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Total
Advances To Other Funds						
Coal Severance Tax Permanent	$ -	$ -	$ -	$ -	$44,241	$44,241
Economic Development Bonds		4,292		181	9,540	14,013
General Fund	40	-	-	-	60	100
Nonmajor Enterprise Funds	75	120	-	-	-	195
Nonmajor Governmental Funds	-	-	-	-	2,826	2,826
State Special Revenue	2,135	-	12,371	-	-	14,506
Total	$2,250	$4,412	$12,371	$181	$56,667	$75,881

Additional detail for certain advance payable balances at June 30, 2005, follows (in thousands):

Advances Payable to the Economic Development Bonds Fund under the INTERCAP Loan Program

Department	Balance
Administration	$ 181
Environmental Quality	905
Justice	8,547
Natural Resources and Conservation	88
Transportation	4,292
Total	$14,013

Advances Payable to the Coal Severance Tax Permanent Fund

Department	Balance
Justice	$ 2,345
Natural Resources and Conservation	41,896
Total	$44,241

D. Interfund Transfers

Routine transfers between funds are recorded to: (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

For the fiscal year ended June 30, 2005, two transfers occurred between the General Fund and the State Special Revenue Fund that are considered significant and non-routine. In accordance with the Fifty-Ninth Legislative Assembly, House Bill 745 appropriated a $13.6 million transfer from the General Fund to the State Special Revenue Fund for repayment of the Integrated Revenue Information System (IRIS) loan. As noted in the fiscal year 2004 CAFR, Note 18, this loan was deemed unconstitutional. The Department of Revenue used the transferred funds to repay the interfund advance to the Coal Severance Tax Permanent Fund. The second transfer was made in accordance with Senate Bill 87 of the Fifty-Ninth Legislative Assembly. This legislation required 50 percent of the money received from payments of property taxes or fees under protest to be transferred from the General Fund to a newly established centrally assessed property tax state special revenue fund.

Interfund transfers for the year ended June 30, 2005, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds
Transfers Out						
Coal Severance Tax Permanent	$ -	$ -	$36,752	$ -	$ -	$ 1,294
Federal Special Revenue	-	-	-	450	3	8,998
General Fund	-	-	-	287	47	16,645
Internal Service Funds	-	-	-	-	-	31
Land Grant Permanent	-	-	-	-	-	795
Nonmajor Enterprise Funds	-	1	25,026	-	-	-
Nonmajor Governmental Funds	-	-	11	500	-	2,905
State Special Revenue	3,006	26	10,077	1,678	13	24,764
Unemployment Insurance	-	2,729	-	-	-	-
Total	$3,006	$2,756	$71,866	$2,915	$63	$55,432

	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Total
Transfers Out *(continued)*			
Coal Severance Tax Permanent	$ -	$ 8,824	$ 46,870
Federal Special Revenue	-	5,147	14,598
General Fund	-	27,459	44,438
Internal Service Funds	150	9	190
Land Grant Permanent	-	76,933	77,728
Nonmajor Enterprise Funds	-	3,965	28,992
Nonmajor Governmental Funds	-	18,254	21,670
State Special Revenue	-	-	39,564
Unemployment Insurance	-	-	2,729
Total	$150	$140,591	$276,779

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2005, (in thousands):

Fund Type/Fund	Deficit
Capital projects funds	
Federal/Private Construction Grants	$ (409)
Enterprise funds	
Subsequent Injury	$ (827)
Internal service funds	
Administration Insurance	$(9,710)
Administration Central Services	$ (29)
Justice Legal Services	$ (70)

The net assets deficit in the Administration Insurance Fund is due to recording the expense for estimated claims including claims incurred, but not reported. Refer to Note 8 for further discussion of this fund.

NOTE 14. RESERVED FUND BALANCES

Special Revenue Funds – The State and Federal Special Revenue Funds reserved fund balances are for the following purposes (in thousands):

Fund Type/Purpose	Amount
State Special Revenue funds	
General Government	$ 26,267
Public Safety/Corrections	184,600
Transportation	167,656
Health/Social Services	23,551
Education/Cultural	3,865
Resource/Recreation/Environment	276,893
Economic Development/Assistance	36,718
Total state special revenue funds	$719,550
Federal Special Revenue funds	
General Government	$ 7,596
Public Safety/Corrections	729
Health/Social Services	1,608
Education/Cultural	13,229
Resource/Recreation/Environment	3,837
Economic Development/Assistance	296
Total federal special revenue funds	$27,295

Coal Severance Tax Permanent Trust Fund – The reserve for trust principal is comprised of the following (in thousands):

Purpose	Amount
Coal Severance Tax Bond Fund	$ 11,493
Treasure State Endowment Fund	140,517
Treasure State Endowment Regional Water System Fund	25,481
Coal Severance Tax Permanent Fund	498,287
Coal Severance Tax Income Fund	15,958
Total	$691,736

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation and by the Student Assistance Foundation of Montana (SAF) and subsidiaries. The Board of Regents and MHESAC have three common board members. Approximately 69.59% of the Regents' outstanding loan volume, or $957,571,545 is held by either MHESAC or SAF and subsidiaries. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana, and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have three common board members. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2005 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer

maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2005 amounted to $494,722. SAF also pays OCHE reimbursement for services such as telephones, postage, and computer services. During fiscal year 2005, SAF paid OCHE a total of $28,393.

A staff member in the Department of Administration, Personnel Division, serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this association $1 per member per year to maintain its membership as well as a monthly fee of $3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers.

NOTE 16. CONTINGENCIES

A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In September 2002, a coalition of school districts, teachers, and parents filed an action, Columbia Falls Elementary School District v. State of Montana, No. BDV-2002-528 (Mont. 1st Jud. Dist. Lewis & Clark County), that alleges that Montana's system for funding public education violates the requirements of the Montana Constitution, The complaint seeks a declaratory judgment that the system violates the Montana Constitution and declaratory and injunctive relief compelling the State to (1) study and determine the components of free quality public elementary and secondary education and the costs of delivering such education; (2) implement a funding system based on educationally relevant factors; (3) fully fund and equitably distribute the State's share of the costs of public elementary and secondary education; (4) include a cost adjustment factoring the funding system; and (5) establish a mechanism for monitoring and adjusting the funding system and an award of attorney's fees. The court denied the State's motion for summary judgment.

The district court sat for the trial in this case from January 20, 2004 through February 4, 2004. Both parties submitted witness, exhibits, and cross-examined witnesses. On April 15, 2004, the court entered its order holding the school funding system unconstitutional. The State appealed the judgment, and the plaintiffs have cross-appealed on certain aspects of the judgment as well. The Supreme Court heard oral argument on the appeal and cross-appeal on October 20, 2004, and the Montana Supreme Court has issued an order that the school funding system violates the Montana Constitution, and has upheld the District order that the State has until October 2005 to address this issue. The court retains jurisdiction to determine whether the Legislature adopts legislation correcting the constitutional deficiencies in the existing system, and further litigation under this retained jurisdiction is possible. The State and the plaintiffs have settled the plaintiffs' attorney fee in the amount of $499,732.18. The parties have agreed to submit that claim for funding by the Montana legislature. Significant additional expenditures on K-12 education may be required in future years.

The State has responded, and is responding to the Columbia Falls court decision. The State defined a quality K-12 education with the passage of Senate Bill 152 during the 2005 Legislative Session. Additionally, Senate Bill 152 defined educationally relevant factors to which a funding system must be correlated. The 2005 Legislature also passed Senate Bill 525, establishing a Quality Schools Interim Committee. This committee is directed to (1) assess the educational needs of Montana children; (2) determine the cost of providing a quality education; (3) determine the State's share of the costs; (4) construct a funding formula in accordance with the requirements contained in the legislation. These directives must be accomplished by December 1, 2005. Additionally, Governor Schweitzer has provided the Quality Schools Interim Committee the following proposals for consideration: (1) a voluntary health care package that includes State of Montana assumption of "high cost" insurance claims along with other health benefits; (2) a one-time appropriation of $100 million into Montana's Teacher Retirement System (TRS); (3) a one-time appropriation of $25 million for facility maintenance and increased energy efficiency. Prior to the enactment of a long-term solution, K-12 funding was increased by $88 million for the current biennium, and $3.4 million was appropriated to fund the Indian Education for All Program. A special session of the Montana Legislature has been called, starting on December 14, 2005, to address this issue. It remains to be seen whether the State's actions will satisfy the Montana Supreme Court order in the Columbia Falls School case. Additional costs required by the State in relation to this court case are not estimable at this time.

Beginning in February 2001, the Montana Department of Fish Wildlife and Parks became the defendant in a number of lawsuits challenging the constitutionality and enforcement of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibiting the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a

fee or other remuneration. Most of these cases sought declaratory and injunctive relief, but several cases are now pending in which game farmers have alleged that I-143 takes their property without just compensation in violation of the state and federal constitutions, and in which they seek damages from the State for the alleged uncompensated taking. The State believes valid defenses exist to the claims asserted in these cases. One of the cases, Spoklie v. State of Montana, U.S. District Ct., D. Mont. Docket No. CV-02-102-GF-SHE, has been dismissed in its entirety, and the dismissal has now been affirmed by the Ninth Circuit of Appeals. In a second case, Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, the state district court has denied the taking claim and entered final judgment in favor of the State. The plaintiffs have filed a notice of appeal of that decision to the Montana Supreme Court. In Buhlmann et al. v. State of Montana st al., Lewis and Clark Docket No. DV-2002-555, the court has entered judgment in favor of the State on the taking claims, and appeal has been taken to the Montana Supreme Court. Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, is submitted on cross-motions for summary judgment. Wallace v. State of Montana, Ravalli County Docket No. 02-254, has been dismissed without prejudice. Spoklie v. Montana Department of Fish, Wildlife and Parks, Sheridan County Docket No. 11013, Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119, Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, are in varying stages of pretrial preparation. Based on the courts' treatment of the cases thus far, in the opinion of counsel, good defenses exist to all of these claims, although adverse decisions remain reasonably possible. The estimated amount of loss cannot be estimated at this time.

Murer, et al v. Montana State Compensation Mutual Insurance Fund, et al., WCC No. 9206-6487, involves the 1987 Legislature's capping of workers compensation benefits ($299.00 a week for total benefits and $149.50 a week for partial benefits) for injuries occurring during the period July 1, 1987 through June 30, 1989. The 1989 Legislature reenacted those caps for the period July 1, 1989 through June 30, 1991 for injuries occurring between July 1, 1989 and June 30, 1991.

The Montana Supreme Court found that these caps should have expired on June 30, 1989, for injuries occurring between July 1, 1987 and June 30, 1989 and should have expired on June 30, 1991, for injuries occurring between July 1, 1989 and June 30, 1991.

The Montana Supreme Court determined a "common fund" had been created. As a result, the Montana State Fund (MSF), under Workers Compensation Court direction, performed a review of approximately 7,500 claims. Those claims qualifying are paid 85% of the increased rate, with 15% paid to the claimant attorney. The current benefit costs and fees in Murer total approximately $2 million. The cost impact has been paid, or is included in Montana State Fund's loss reserves. The review and payment process is almost complete. This case will not be reported in future years due to the nearly completed process.

The common fund doctrine was first addressed for workers compensation claims in Murer v. State Compensation Mutual Ins. Fund, 283 Mont. 210, 223, 942 P.2d 69, 76 (1997), as follows:

When a party, through active litigation, creates a common fund, which directly benefits an ascertainable class of non-participating beneficiaries, those non-participating beneficiaries can be required to bear a portion of the litigation costs, including reasonable attorney fees. Accordingly, the party who creates the common fund is entitled, pursuant to the common fund doctrine, to reimbursement of his or her reasonable attorney fees from that fund.

In Stavenjord v. State Compensation Insurance Fund, the first decision was issued by the Workers Compensation Court on May 22, 2001. It addressed the issue of whether the failure of the Occupational Disease Act (ODA) to provide PPD (permanent partial disability) benefits equivalent to the benefits provided in the Montana WCA (Workers Compensation Act) violates the claimant's right to equal protection of the law. Relying on the Henry case (previous case from the Supreme Court finding that vocational rehabilitation benefits must also be paid under the ODA), the court held that MCA 39-72-405 is unconstitutional as applied to Debra Stavenjord. "Where PPD benefits calculated pursuant to the WCA are greater than the benefits available to a claimant under the ODA, constitutional equal protection guarantees require that benefits be computed and paid in accordance with the WCA. The claimant in this case is entitled to $27,027 under the WCA, versus $10,000 under the ODA." The Montana Supreme Court affirmed the case on April 1, 2003. On August 27, 2004, the Workers Compensation Court held that Stavenjord is retroactive to June 3, 1999 (the date of the Henry decision). The court held that a common fund is created for claimants reaching Maximum Medical Improvement on or after June 3, 1999. The cost of retroactively paying benefits for claims in the period of June 3, 1999 through May 21, 2001, is estimated at $2.2 million and is recorded in the loss reserves of the financial statements. There is no impact on the Old Fund liability with this ruling. This decision has been appealed to the Montana Supreme Court. Should the ultimate decision of the Montana Supreme Court be to create a common fund and apply the decision retroactively to 1987, the cost is estimated at $14 to $19 million dollars for the Montana State

Fund (New Fund), for claims on or after July 1, 1990). Should the ultimate decision of the Montana Supreme Court be to apply the decision retroactively to 1987, the impact on the Old Fund liability for claims that occurred before July 1, 1990 is estimated at $5 to $7 million. Final disposition is unknown at this time. The outcome of a ruling reversing the Workers Compensation Court by the Montana Supreme Court that would increase MSF and State of Montana liability is reasonably possible. Actual cost impact should the Montana Supreme Court reverse the Workers Compensation Court ruling is unknown.

Schmill v. Liberty Northwest Insurance, 2003 MT 80, decided April 10, 2003, by the Montana Supreme Court held as follows: "We conclude that the ODA and the WCA treat similarly situated classes of workers differently. Furthermore, apportioning Schmill's permanent impairment award for her occupational disease pursuant to MCA 39-72-706 of the ODA while providing full benefits for injured workers pursuant to the WCA is not rationally related to a legitimate governmental interest. Therefore, we conclude that MCA 39-72-706 violates the equal protection guarantee found at Article II, Section 4 of the Montana Constitution. The judgment of the Workers Compensation Court is affirmed." The Workers Compensation Court determined that a common fund existed, and the case was retroactive to July 1, 1987. This decision was affirmed on appeal to the Montana Supreme Court. The June 7, 2005 decision of the Montana Supreme Court created a common fund and applied the decision retroactively. The cost is estimated to be $1.4 to $1.9 million dollars for MSF. The decision of the Montana Supreme Court is estimated to impact the Old Fund liability in the amount of $800,000 for claims that occurred before July 1, 1990. This was not a case against the Montana State Fund, but the holding of this decision applies to Montana State Fund and the Old Fund. Implementation of the common fund has begun under the direction of the Workers Compensation Court. This case has been recorded in the MSF loss reserves.

Satterlee v. Lumberman's Mutual Casualty Company et al., WCC No. 2003-0840, was filed before the Workers Compensation Court on July 18, 2003. The Satterlee vs. Lumberman's Mutual Casualty Company case challenges the constitutionality of State statute, (MCA 39-71-710) passed by the Montana Legislature in 1981. That statute authorizes termination of permanent total disability benefits and rehabilitation benefits when a claimant receives or becomes eligible to receive full Social Security retirement benefits or an alternative to that plan. Should the statute be found to be unconstitutional as applied to permanent total benefits, Satterlee, et al. request payment of lifetime permanent total disability benefits. In addition, the petition requests certification of this case as a class action or the establishment of a common fund for similarly situated claimants. Petitioners filed a motion and brief for summary judgment on the constitutional issue. The Workers Compensation Court provided an opportunity for any workers compensation insurer to intervene until June 6, 2005. Briefing is to be completed by September 15, 2005, and oral argument is set for October 7, 2005. Should MCA 39-71-710 ultimately be held to be unconstitutional as applied to permanent total disability benefits by the Workers Compensation Court and/or the Montana Supreme Court, and also found to apply retroactively, the cost impact has been estimated for non-settled claims arising on or after July 1, 1990 through December 22, 2004 at $135 million to $186 million. The estimated cost of retroactively applying the decision to the Old Fund, for non-settled permanent total disability claims that occurred before July 1, 1990, is $93 million to $116 million. The potential for liability for MSF and the State of Montana is reasonably possible. Actual cost impact is unknown.

In Reesor v. Montana State Fund, 2004 MT 370, Reesor was receiving Social Security retirement benefits at the time he suffered an industrial accident. He received an impairment award, but was denied other permanent partial disability (PPD) benefits pursuant to MCA 39-71-710, which provides that persons who are receiving Social Security benefits or are eligible for full Social Security retirement benefits are ineligible for PPD benefits other than an impairment award. Reesor challenged the constitutionality of MCA 39-71-710 on equal protection grounds and sought full PPD benefits. On July 26, 2003, the Workers Compensation Court found MCA 39-71-710 to be constitutional. Reesor appealed to the Montana Supreme Court, where on December 22, 2004, the court held that limiting Reesor's permanent partial benefit pursuant to MCA 39-71-710 violated the Equal Protection Clause of the Montana Constitution. Pending before the Workers Compensation Court are the retroactive application of the decision and common fund status. MSF has estimated the cost of benefits associated with a retroactive application of Reesor. MSF's estimate did not include claims with entitlement dates occurring on or after July 1, 1991 through June 30, 1995 because the Russette decision appears to make Reesor inapplicable during that timeframe. Excluding the Russette timeframe, for claims arising on or after July 1, 1990 through December 22, 2004, the increase in benefit costs for MSF is estimated at $2 million. For claims arising on or after July 1, 1987 through June 30, 1990, the retroactive application of Reesor will result in an estimated benefit cost increase of $1 million for the Old Fund. The potential for the litigation to create a liability for MSF and the State of Montana is reasonably possible. Actual cost impact should the decision be applied retroactively is unknown.

B. Federal Contingencies

USDA Commodities – In fiscal year 2005, the State distributed $6,963,170 in commodities. The value of the commodities stored in the State's warehouses was $1,888,055 at June 30, 2005, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2005, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling $130,476,641. The BOI's exposure to bond issues of the Economic Development Bonds Fund was $85,160,000, while exposure to bond issues and surety bonds of the Facility Finance Authority was $45,316,641.

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2005, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Coal severance	$ 932	$264	$1,765	$32	$408
Oil & gas	2,328	252	-	-	-
Corporation tax	6,035	-	-	-	-
Total	$9,295	$516	$1,765	$32	$408

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2005. The corporations have appealed the decision. As of June 30, 2005, these include $13,089,240 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2005. As of June 30, 2005, these include $5,764,997 of protested General Fund property taxes.

NOTE 17. SUBSEQUENT EVENTS

Bond Issues

On July 1, 2005, the Montana Board of Housing issued $516,000 of Series 2005A-1 Single Family Mortgage Revenue bonds (Montana Homeownership Network Pool Program). The bonds are limited-obligation, taxable revenue bonds issued by the board on behalf of Neighborhood Housing Services, Incorporated of Great Falls, Montana and the Montana Home Ownership Network.

$30,280,000 in Series 2005 RA Single Family Program bonds were issued on October 19, 2005.

On July 21, 2005, Montana State University issued $25,750,000 Series J 2005 Facilities Improvement Revenue bonds for the purposes of funding the renovation, furnishing, and equipping of the Strand Union Building, the Health & PE Complex, and constructing the Black Box Theater.

In association with the Series J 2005 bonds, the university has entered into an interest rate swap agreement with Deutsche Bank AG that the university will pay D-B a fixed rate of interest (3.953%), and D-B will pay the university a floating rate based upon the Bond Market Association (BMA) index, in each case based upon a notational amount equal to the principal amount of the Series J 2005 bonds outstanding. The purpose of the interest rate agreement is generally to convert the university's floating rate obligations with respect to the Series J 2005 bonds to fixed-rate obligations.

On September 15, 2005, The University of Montana issued $31,095,000 of Series J 2005 Facilities Improvement and Refunding Revenue bonds, with interest ranging from 3.00 percent to 4.50 percent. The proceeds from the issue, together with certain resources of the Board of Regents and the university, will provide funds to pay and discharge a portion of the Series F Revenue bonds, and finance or refinance the costs of acquisition, construction, furnishing, equipping,

renovation or improvement of certain university facilities.

In addition, the university intends to refund the remaining unrefunded portion of the Series F 1999 Revenue bonds by issuing variable-rate parity bonds in 2010 (Series K 2010 Parity bonds) for a maximum principal amount of $47,000,000. As part of the planned issuance, the university entered into a forward-swap interest rate agreement on August 26, 2005. The purpose of the rate swap is to convert the variable-rate Series K 2010 Parity bonds into a fixed-rate obligation. The university received approximately $2,000,000 from the counter party, which will be used to pay costs associated with Series J 2005 Revenue bonds issuance. The payment received from the counterparty was consideration for the fixed-rate payable under this obligation being higher than interest rates on similar obligations at the time the agreement was signed.

On August 18, 2005, the Board of Investments issued $825,000 Series 2005 Municipal Finance Consolidation Act bonds for the Cut Bank Elementary Schools Qualified Zone Academy Program.

On August 18, 2005, the Board of Investments issued $625,000 Series 2005 Municipal Finance Consolidation Act Bonds for the Cut Bank High Schools Qualified Zone Academy Program.

On August 4, 2005 the Montana Facility Finance Authority issued a $1,200,000 bond issue for the Boyd Andrew Prerelease Center. As discussed in Note 11, this debt is not a commitment of the State of Montana.

On August 23, 2005, the Montana Facility Finance Authority issued a $3,434,000 bond issue to refinance existing debt for Missions United.

On September 21, 2005, the Montana Facility Finance Authority issued a $28,545,000 bond issue to refund existing bonds and construct an additional 32 independent living units at Hillcrest facility.

NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

A. Constitutionality of IRIS Funding

In the 2004 CAFR, the State provided a disclosure related to legal compliance issues involved with the funding of the IRIS project (Integrated Revenue Information System). The State's bond counsel and the State's Legislative Audit Division had raised several legal concerns related to legislation passed by the State's Legislature.

In accordance with the Fifty-Ninth Legislative Assembly, House Bill 745, funds were appropriated from the General Fund to the State Special Revenue Fund for repayment of the IRIS loan. In fiscal year 2005, the Department of Revenue used the transferred funds to repay the interfund advance to the Coal Severance Tax Permanent Fund.

B. Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement plans shall be funded on an actuarially sound basis. As of June 30, 2005, there were four retirement plans not in compliance: the Teachers Retirement System (TRS), the Public Employee Retirement System (PERS) Defined Benefit Retirement Plan, the Sheriffs Retirement System, and the Game Wardens and Peace Officers Retirement System. Detailed information for each plan can be found in Note 6.

A special session of the Montana Legislature has been call for December 14, 2005 to address this retirement system funding issue.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	$ 126,303	$ 126,303	$ 127,114	$ 811
Taxes:				
Natural resource	37,309	37,309	78,202	40,893
Individual income	577,891	577,891	635,808	57,917
Corporate income	69,249	69,249	94,014	24,765
Property	175,805	175,805	175,392	(413)
Fuel	-	-	-	-
Other	204,570	204,570	202,530	(2,040)
Charges for services/fines/forfeits/settlements	38,695	38,695	31,928	(6,767)
Investment earnings	17,349	17,349	10,596	(6,753)
Sale of documents/merchandise/property	344	344	326	(18)
Rentals/leases/royalties	53	53	45	(8)
Contributions/premiums	-	-	-	-
Grants/contracts/donations	1,645	1,645	2,591	946
Federal	17,631	17,631	26,041	8,410
Federal indirect cost recoveries	142	142	145	3
Other revenues	1,738	1,738	215	(1,523)
Total revenues	1,268,724	1,268,724	1,384,947	116,223
EXPENDITURES				
Current:				
General government	198,773	187,799	187,220	579
Public safety/corrections	130,978	144,069	142,824	1,245
Transportation	181	205	199	6
Health/social services	275,120	279,597	277,571	2,026
Education/cultural	660,754	659,550	654,319	5,231
Resource/recreation/environment	20,294	31,521	31,466	55
Economic development/assistance	22,821	24,998	23,869	1,129
Debt service:				
Principal retirement	3,894	4,001	613	3,388
Interest/fiscal charges	122	122	122	-
Capital outlay	1,547	1,840	1,047	793
Total expenditures	1,314,484	1,333,702	1,319,250	14,452
Excess of revenue over (under) expenditures	(45,760)	(64,978)	65,697	130,675
OTHER FINANCING SOURCES (USES)				
Loans issued	-	-	-	-
Bonds issued	-	-	-	-
Refunding bonds issued	-	-	-	-
General capital asset sale proceeds	71	71	22	(49)
Transfers in	69,334	69,334	64,760	(4,574)
Transfers out	(20,321)	(33,093)	(31,030)	2,063
Total other financing sources (uses)	49,084	36,312	33,752	(2,560)
Net change in fund balances (Budgetary basis)	3,324	(28,666)	99,449	128,115
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	1,436	1,436
2. Securities lending costs	-	-	(1,375)	(1,375)
3. Bond premium	-	-	-	-
4. Inception of lease/installment contract	-	-	264	264
5. Adjust expenditures for encumbrances	-	-	1,768	1,768
6. Adjustments for nonbudgeted activity	-	-	58,835	58,835
Net change in fund balances (GAAP basis)	3,324	(28,666)	160,377	189,043
Unreserved fund balances - July 1	132,873	132,873	132,873	-
Prior period adjustments	-	-	(2,299)	(2,299)
Decrease (increase):				
Encumbrances reserve	-	-	(1,701)	(1,701)
Long-term loans/notes receivable reserve	-	-	17	17
Advances to other funds reserve	-	-	-	-
Special revenue reserve	-	-	-	-
Escheated property reserve	-	-	408	408
Unreserved fund balances - June 30	$ 136,197	$ 104,207	$ 289,675	$ 185,468

The notes to the required supplementary information are an integral part of this schedule.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
$ 112,526	$ 112,526	$ 116,681	$ 4,155	$ -	$ -	$ -	$ -
42,062	42,062	83,041	40,979	-	-	-	-
-	-	1,109	1,109	-	-	-	-
-	-	-	-	-	-	-	-
49	49	9,375	9,326	-	-	-	-
196,454	196,454	191,900	(4,554)	-	-	-	-
33,320	33,320	54,064	20,744	-	-	-	-
75,562	75,562	73,987	(1,575)	45,326	45,326	68,978	23,652
5,677	5,677	6,723	1,046	430	430	473	43
6,732	6,732	4,797	(1,935)	1	1	-	(1)
413	413	775	362	-	-	-	-
7,500	7,500	7,731	231	-	-	-	-
24,822	24,822	17,429	(7,393)	45	45	31	(14)
24,412	24,412	11,554	(12,858)	1,574,522	1,574,522	1,319,355	(255,167)
151	151	34,211	34,060	3,484	3,484	46,724	43,240
3,540	3,540	2,936	(604)	1,810	1,810	233	(1,577)
533,220	533,220	616,313	83,093	1,625,618	1,625,618	1,435,794	(189,824)
106,923	107,842	93,467	14,375	11,631	18,342	8,945	9,397
41,426	44,285	37,844	6,441	53,813	100,110	50,141	49,969
415,860	437,515	212,193	225,322	416,581	384,852	276,354	108,498
70,225	70,190	59,873	10,317	884,991	900,638	837,983	62,655
77,061	77,479	77,155	324	207,425	208,284	172,782	35,502
142,666	144,977	100,120	44,857	74,890	93,357	55,947	37,410
68,587	72,368	65,859	6,509	76,996	82,080	64,999	17,081
9,795	9,175	432	8,743	162	359	196	163
1,060	1,060	1,060	-	29	29	29	-
68,509	74,548	27,360	47,188	48,991	62,271	24,735	37,536
1,002,112	1,039,439	675,363	364,076	1,775,509	1,850,322	1,492,111	358,211
(468,892)	(506,219)	(59,050)	447,169	(149,891)	(224,704)	(56,317)	168,387
570	570	-	(570)	-	-	-	-
198,225	198,225	133,988	(64,237)	-	-	-	-
5,070	5,070	5,070	-	-	-	-	-
193	193	141	(52)	5	5	3	(2)
208,677	208,677	136,292	(72,385)	36,383	36,383	6,446	(29,937)
(20,254)	(15,984)	(4,692)	11,292	(50,994)	(46,917)	(13,447)	33,470
392,481	396,751	270,799	(125,952)	(14,606)	(10,529)	(6,998)	3,531
(76,411)	(109,468)	211,749	321,217	(164,497)	(235,233)	(63,315)	171,918
-	-	1,033	1,033	-	-	-	-
-	-	(978)	(978)	-	-	-	-
-	-	6,653	6,653	-	-	-	-
-	-	131	131	-	-	122	122
-	-	11,465	11,465	-	-	1,510	1,510
-	-	(16,330)	(16,330)	-	-	57,400	57,400
(76,411)	(109,468)	213,723	323,191	(164,497)	(235,233)	(4,283)	230,950
(73,620)	(73,620)	(73,620)	-	(10,271)	(10,271)	(10,271)	-
-	-	463	463	-	-	277	277
-	-	2,804	2,804	-	-	12,858	12,858
-	-	(8,942)	(8,942)	-	-	55	55
-	-	(2,923)	(2,923)	-	-	100	100
-	-	(181,050)	(181,050)	-	-	(238)	(238)
-	-	37	37	-	-	-	-
$ (150,031)	$ (183,088)	$ (49,508)	$ 133,580	$ (174,768)	$ (245,504)	$ (1,502)	$ 244,002

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The Legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and along with other information develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2005, reverted governmental fund appropriations were as follows: General Fund - $26.5 million, State Special Revenue Fund - $32.3 million, and Federal Special Revenue Fund - $52.8 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Single Employer Systems
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/02	81,734	94,850	13,116	86.17%	7,536	174.04%
07/01/04	79,104	104,069	24,965	76.01%	7,844	318.27%
06/30/05	82,050	112,938	30,888	72.65%	9,104	339.28%
JRS						
07/01/02	44,963	30,882	(14,081)	145.60%	4,000	(352.03)%
07/01/04	45,134	34,724	(10,410)	129.98%	4,403	(236.43)%
06/30/05	47,552	34,525	(13,027)	137.73%	4,462	(291.95)%

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-2. PENSION PLAN INFORMATION

The information presented in this required supplementary schedule was determined as part of the actuarial valuations at the dates indicated in the table below. Additional information as of the latest actuarial valuation follows:

Pension Plan Information
Single Employer Systems

	HPORS	JRS
Contributions (in thousands)		
Employer	$3,324	$1,162
Employee	862	394
License and registration fees	669	
Actuarial valuation date	6/30/05	6/30/05
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	21.1 years	30 years
Asset valuation method	4 year smoothed market	4 year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.25%	4.25%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

		AMOUNT
PEACE CORPS		
08.999	Miscellaneous Non-Major Grants	8,898
	TOTAL	$8,898
DEPARTMENT OF AGRICULTURE		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	971,989
10.069	Conservation Reserve Program	23,700
10.162	Inspection Grading and Standardization	84,598
10.163	Market Protection and Promotion	547,682
10.206	Grants for Agricultural Research-Competitive Research Grants	8,642
10.210	Food and Agricultural Sciences National Needs	1,468
10.303	Integrated Programs: From Univ. of Calf. Davis	4,688
10.500	Cooperative Extension Service	3,421,204
10.500	Cooperative Extension Service: From Utah State	383
10.500	Cooperative Extension Service: From Wash. State	20,249
10.550	Food Donation	2,422,634
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	13,868,293
10.558	Child and Adult Care Food Program	8,826,552
10.560	State Administrative Expenses for Child Nutrition	927,390
10.565	Commodity Supplemental Food Program	1,832,599
10.567	Food Distribution Program on Indian Reservations	3,235,678
10.570	Nutrition Services Incentive	947,744
10.572	WIC Farmers' Market Nutrition Program (FMNP)	75,359
10.574	Team Nutrition Grants	237,964
10.579	Child Nutrition Discretionary Grants Limited Availability	18,759
10.601	Market Access Program: From US Livestock Gen. Exp	2,075
10.601	Market Access Program: From West US Ag Trade Assoc.	2,394
10.652	Forestry Research	54,854
10.664	Cooperative Forestry Assistance	4,538,893
10.666	Schools and Roads - Grants to Counties	107,865
10.672	Rural Development, Forestry, and Communities	123,822
10.676	Forest Legacy Program	3,289,000
10.677	Forest Land Enhancement Program	167,064
10.700	National Agricultural Library	13,705

			AMOUNT
10.773	Rural Business Opportunity Grants		146,750
10.853	LOCAL Television Loan Guarantee Program		75,524
10.901	Resource Conservation and Development		50,000
10.902	Soil and Water Conservation		210,795
10.904	Watershed Protection and Flood Prevention		20,000
10.920	Grassland Reserve Program		3,003
10.999	Miscellaneous Non-Major Grants		1,124,484
10.999	Miscellaneous Non-Major Grants: From Univ. of Wyoming		25,965
10.999	Miscellaneous Non-Major Grants: From FT Belknap Comm. Con.		7,640
		TOTAL	$47,441,408
CHILD NUTRITION CLUSTER			
10.553	School Breakfast Program		4,112,660
10.555	National School Lunch Program		16,384,953
10.556	Special Milk Program for Children		42,361
10.559	Summer Food Service Program for Children		698,828
		TOTAL	$21,238,802
EMERGENCY FOOD ASSISTANCE CLUSTER			
10.568	Emergency Food Assistance Program (Administrative Costs)		150,563
10.569	Emergency Food Assistance Program (Food Commodities)		852,457
		TOTAL	$1,003,020
FOOD STAMP CLUSTER			
10.551	Food Stamps		86,992,930
10.561	State Administrative Matching Grants for Food Stamp Program		7,601,444
		TOTAL	$94,594,374
SCHOOLS AND ROADS CLUSTER			
10.665	Schools and Roads: Grants to States		12,495,791
		TOTAL	$12,495,791
DEPARTMENT OF COMMERCE			
11.300	Economic Development: Grants for Public Works and Infrastructure Development: From Bear Paw Developm		886,506
11.550	Public Telecommunication Facilities-Planning and Construction		305,000
11.552	Technology Opportunities Program		2,500
		TOTAL	$1,194,006

		AMOUNT
PUBLIC WORKS AND E.D. CLUSTER		
11.307	Economic Adjustment Assistance	18,883
	TOTAL	$18,883
DEPARTMENT OF DEFENSE		
12.112	Payments to States in Lieu of Real Estate Taxes	18,158
12.400	Military Construction National Guard	13,012,446
12.401	National Guard Military Operations and Maintenance Projects	12,851,751
12.404	National Guard Civilian Youth Opportunities	1,744,314
12.999	Miscellaneous Non-Major Grants	3,868,552
	TOTAL	$31,495,221
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	237,592
14.169	Housing Counseling Assistance Program	117,539
14.228	Community Development Block Grant/States Program	8,632,386
14.231	Emergency Shelter Grants Program	390,208
14.235	Supportive Housing Program	197,176
14.239	Home Investment Partnerships Program	7,045,241
14.241	Housing Opportunities for Persons with AIDS	489,069
14.246	Community Development Block Grants/Brownfields Economic Development Initiative	119,344
14.871	Section 8 Housing Choice Vouchers	16,983,860
	TOTAL	$34,212,415
SECTION 8 PROJECT-BASED CLUSTER		
14.195	Section 8 Housing Assistance Payments Program Special Allocations	16,918,252
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	2,015,676
	TOTAL	$18,933,928
DEPARTMENT OF THE INTERIOR		
15.043	Indian Child and Family Education	3,769
15.114	Indian Education: Higher Education Grant Program	128,296
15.130	Indian Education - Assistance to Schools	41,862

		AMOUNT
15.224	Cultural Resource Management	149,620
15.225	Recreation Resource Management	16,010
15.228	Wildland Urban Interface Community and Rural Fire Assistance	1,268,959
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	1,039,090
15.252	Abandoned Mine Land Reclamation (AMLR) Program	3,888,093
15.299	Miscellaneous Non-Major Grants	298,494
15.504	Water Reclamation and Water Reuse Program	51,040
15.608	Fish and Wildlife Management Assistance	64,390
15.615	Cooperative Endangered Species Conservation Fund	4,821,308
15.617	Wildlife Conservation and Appreciation	210,058
15.632	Conservation Grants Private Stewardship for Imperiled Species	87,820
15.634	State Wildlife Grants	1,608,958
15.637	Migratory Bird Joint Ventures	17,627
15.642	Challenge Cost Share	12,104
15.808	U.S. Geological Survey-Research and Data Acquisition	53,982
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	986
15.904	Historic Preservation Fund Grants-in-Aid	1,131,008
15.912	National Historic Landmark	62,853
15.914	National Register of Historic Places	51,615
15.915	Technical Preservation Services	7,200
15.916	Outdoor Recreation: Acquisition, Development and Planning	394,456
15.923	National Center for Preservation Technology and Training	77,130
15.999	Miscellaneous Non-Major Grants	4,037,316
15.FFA	FWS Program	28,163
	TOTAL	**$19,552,207**
FISH AND WILDLIFE CLUSTER		
15.605	Sport Fish Restoration	7,322,012
15.611	Wildlife Restoration	5,837,180
	TOTAL	**$13,159,192**
DEPARTMENT OF JUSTICE		
16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	18,038
16.202	Offender Reentry Program	1,088,498
16.523	Juvenile Accountability Incentive Block Grants	678,761

		AMOUNT
16.525	Grants to Reduce Violent Crimes Against Women on Campus	90,837
16.529	Education and Training to End Violence Against and Abuse of Women with Disabilities	84,074
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	1,096,929
16.547	Victims of Child Abuse	50,595
16.548	Title V Delinquency Prevention	100,000
16.549	Part E State Challenge Activities	(1,648)
16.550	State Justice Statistics Program For Statistical Analysis Centers	44,354
16.554	National Criminal History Improvement Program (NCHIP)	629,662
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	71,286
16.575	Crime Victim Assistance	1,509,102
16.576	Crime Victim Compensation	356,000
16.579	Byrne Formula Grant Program	2,346,139
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	448,754
16.585	Drug Court Discretionary Grant Program	59,320
16.588	Violence Against Women Formula Grants	963,778
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	190,589
16.592	Local Law Enforcement Block Grants Program	156,888
16.593	Residential Substance Abuse Treatment for State Prisoners	358,851
16.609	Community Prosecution and Project Safe Neighborhoods	27,987
16.710	Public Safety Partnership and Community Policing Grants	4,838,554
16.727	Enforcing Underage Drinking Laws Program	357,660
16.999	Miscellaneous Non-Major Grants	81,709
	TOTAL	$15,646,717

DEPARTMENT OF LABOR

17.002	Labor Force Statistics	772,217
17.005	Compensation and Working Conditions	83,383
17.203	Labor Certification for Alien Workers	80,170
17.225	Unemployment Insurance	84,179,182
17.235	Senior Community Service Employment Program	380,766
17.245	Trade Adjustment Assistance-Workers	1,702,133
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	39,821

		AMOUNT
17.267	WIA Incentive Grants - Section 503 Grants to States	782,650
17.504	Consultation Agreements	403,754
17.600	Mine Health and Safety Grants	124,854
17.720	Employment Programs for People with Disabilities: From MJTP Inc	473,658
17.802	Veterans' Employment Program	933
17.999	National Occupational Information Coordinating Committee: From Nebraska	45,834
	TOTAL	$89,069,355
	EMPLOYMENT SERVICES CLUSTER	
17.207	Employment Service: From MJTP Inc	5,854,345
17.207	Employment Service: From South Carolina	2,428
17.207	Employment Service: From North Carolina	2,380
17.801	Disabled Veterans Outreach Program (DVOP)	518,694
17.804	Local Veterans' Employment Representative Program	64,982
	TOTAL	$6,442,829
	WORKFORCE INVESTMENT ACT CLUSTER	
17.258	WIA Adult Program	2,916,478
17.259	WIA Youth Activities	2,967,213
17.260	WIA Dislocated Workers	4,197,786
	TOTAL	$10,081,477
	DEPARTMENT OF STATE	
19.401	Educational Exchange - University Lecturers (Professors) and Research Scholars	23,095
19.404	Professional Development International Educators/Administrators	96,803
19.406	College & University Affiliations Program: From Acad. for Educ. Develop.	123,012
19.999	Miscellaneous Grants: From Acad. for Educ. Develop.	174,073
	TOTAL	$416,983
	DEPARTMENT OF TRANSPORTATION	
20.106	Airport Improvement Program	2,097,176
20.218	National Motor Carrier Safety	1,231,021
20.219	Recreational Trails Program	665,257
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	333,028
20.607	Alcohol Open Container Requirements	3,545,665
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	2,347,749

			AMOUNT
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants		106,672
20.999	Miscellanous Non-major		41,582
		TOTAL	$10,368,150
	FEDERAL TRANSIT CLUSTER		
20.500	Federal Transit Capital Improvement Grants		695,757
20.507	Federal Transit - Formula Grants		1,309,407
		TOTAL	$2,005,164
	HIGHWAY PLAN. & CONST. CLUSTER		
20.205	Highway Planning and Construction		300,368,480
		TOTAL	$300,368,480
	HIGHWAY SAFETY CLUSTER		
20.600	State and Community Highway Safety: From Healthy Mothers,		1,269,273
20.602	Occupant Protection		197,487
20.603	Federal Highway Safety Data Improvements Incentive Grants		28,988
20.604	Safety Incentive Grants for Use of Seatbelts		116,478
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons		3,314
		TOTAL	$1,615,540
	DEPARTMENT OF TREASURY		
21.999	Miscellaneous Non-Major Grants		4,799,389
		TOTAL	$4,799,389
	EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.002	Employment Discrimination-State and Local Fair Employment Practices		130,026
		TOTAL	$130,026
	GENERAL SERVICES ADMINISTRATION		
39.003	Donation of Federal Surplus Personal Property		734,521
39.011	Election Reform Payments		2,358,582
		TOTAL	$3,093,103
	NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Aerospace Education Services Program		45,913

			AMOUNT
43.002	Technology Transfer: From Texam AM Univ.		123,486
43.002	Technology Transfer: From Wright Pat AFB		161,212
43.999	Miscellaneous Non-Major Grants		6,682
43.999	Miscellaneous Non-Major Grants: From MT Aerospace Auth.		121,827
		TOTAL	$459,120

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

45.024	Promotion of the Arts-Grants to Organizations and Individuals		44,200
45.025	Promotion of the Arts-Partnership Agreements		642,200
45.129	Promotion of the Humanities-Federal/State Partnership		(1,230)
45.129	Promotion of the Humanities-Federal/State Partnership: From MT Comm Hummanit.		31,653
45.149	Promotion of the Humanities Division of Preservation and Access		6,381
45.149	Promotion of the Humanities Division of Preservation and Access: From Oregon State Univ.		39
45.301	Museum for America Grants		887,668
45.313	Librarians for the 21st Century		56,009
45.999	Miscellaneous Grants		51,698
		TOTAL	$1,718,618

NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants		(6,196)
47.074	Biological Sciences		166,679
47.075	Social, Behavioral, and Economic Sciences		34,063
47.076	Education and Human Resources		3,454,554
47.076	Education and Human Resources: From Asso. of Am. Colleges		10,762
47.999	Miscellaneous Non-Major Grants		2,709
		TOTAL	$3,662,571

SMALL BUSINESS ADMINISTRATION

59.037	Small Business Development Center: From TechRanch		572,208
59.046	Microloan Program		138,738
59.999	Miscellaneous Non-Major Grants: From Tech Venture		11,799
		TOTAL	$722,745

		AMOUNT
DEPARTMENT OF VETERANS AFFAIRS		
64.010	VETERANS NURSING HOME CARE	22,867
64.014	Veterans State Domiciliary Care	83,165
64.015	Veterans State Nursing Home Care	3,211,238
64.120	Post-Vietnam Era Veterans' Educational Assistance	1,113
64.124	All-Volunteer Force Educational Assistance	79,979
64.203	State Cemetery Grants	84,665
	TOTAL	$3,483,027
ENVIRONMENTAL PROTECTION AGENCY		
66.433	State Underground Water Source Protection	98,098
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	37,695
66.439	Targeted Watershed Grants	10,373
66.454	Water Quality Management Planning	111,158
66.458	Capitalization Grants For State Revolving Funds	1,955,527
66.460	Nonpoint Source Implementation Grants	2,166,672
66.461	Wetland Program Grants	404,617
66.463	Water Quality Cooperative Agreements	12,959
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	53,172
66.468	Capitalization Grants for Drinking Water State Revolving Fund	4,624,707
66.471	State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	149,845
66.474	Water Protection Grants to the States	95,471
66.599	Miscellaneous Non-Major Grants	25,000
66.605	Performance Partnership Grants	5,630,999
66.606	Surveys, Studies, Investigations and Special Purpose Grants	30,733
66.607	Training and Fellowships for the Environmental Protection Agency	6,894
66.708	Pollution Prevention Grants Program	111,261
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements	1,136,461
66.805	Leaking Underground Storage Tank Trust Fund Program	449,872
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	185,153
66.811	Brownfield Pilots Cooperative Agreements	23,291

		AMOUNT
66.814	Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements: From Colorado St Univ.	11,530
66.817	State and Tribal Response Program Grants	515,663
66.950	Environmental Education and Training Program: From Univ. of Wisconsin	18,565
66.951	Environmental Education Grants	2
	TOTAL	$17,865,718

DEPARTMENT OF ENERGY

81.041	State Energy Program	396,126
81.042	Weatherization Assistance for Low-Income Persons	3,076,316
81.049	Office of Science Financial Assistance Program: From Inland NW Res All	302,101
81.104	Office of Environmental Cleanup and Acceleration: From MSE	241,326
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training: From Inland NW Res All	207,910
81.119	State Energy Program Special Projects	42,160
81.999	Miscellaneous Non-Major Grants	2,068,415
	TOTAL	$6,334,354

FEDERAL EMERGENCY MANAGEMENT AGENCY

83.547	First Responder Anti-Terrorism Training Assistance: From Butte Silver Bow	5,258
	TOTAL	$5,258

DEPARTMENT OF EDUCATION

84.002	Adult Education - State Grant Program	1,411,895
84.010	Title I Grants To Local Education Agencies	39,326,670
84.011	Migrant Education - State Grant Program	983,049
84.013	Title I Program for Neglected and Delinquent Children	128,262
84.015	National Resource Centers and Fellowships Program for Language and Area or Language: From Univ.of Co. Dev.	8,721
84.016	Undergraduate International Studies and Foreign Language	32,131
84.048	Vocational Education - Basic Grants to States	5,777,899
84.069	Leveraging Educational Assistance Partnership	225,773
84.083	Women's Educational Equity Act Program	181,102
84.116	Fund for the Improvement of Postsecondary Education	1,295,910
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	10,373,087

		AMOUNT
84.129	Rehabilitation Long-Term Training	4,172
84.133	National Institute on Disability and Rehabilitation Research	27,461
84.133	National Institute on Disability and Rehabilitation Research: From Brain Injury Ass.	31,701
84.144	Migrant Education - Coordination Program(B)	110,000
84.153	Business and International Education	25,107
84.169	Independent Living-State Grants	263,666
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	158,065
84.181	Special Education-Grants for Infants and Families with Disabilities	2,446,603
84.184	Safe and Drug-Free Schools and Communities - National Programs: From Hamilton Sch Dist	4,533
84.185	Byrd Honors Scholarships	121,725
84.186	Safe and Drug-Free Schools and Communities - State Grants	2,107,319
84.187	Supported Employment Services for Individuals with Severe Disabilities	399,447
84.195	Bilingual Education - Professional Development	256,217
84.195	Bilingual Education - Professional Development: From Blackfeet C.C.	8,938
84.196	Education for Homeless Children and Youth	173,575
84.213	Even Start - State Educational Agencies	1,070,638
84.215	Fund for Improvement of Education	247,930
84.215	Fund for Improvement of Education: From Nat. Council on Econ. Ed.	22,878
84.224	State Grants for Assistive Technology	327,914
84.234	Projects with Industry	107,483
84.235	Rehabilitation Services Demonstration and Training Programs	878,640
84.243	Tech-Prep Education	491,554
84.256	Freely Associated States - Education Grant Program: From Univ. of Calf.- Wrt Prj	43,220
84.264	Rehabilitation Training-Continuing Education	89,718
84.265	Rehabiliation Training-State Vocational Rehabilitation Unit In-Service	39,755
84.287	Twenty-First Century Community Learning Centers	4,516,511
84.295	Ready-To-Learn Television: From PBS	88,115
84.298	State Grants for Innovative Programs	1,606,991
84.299	Indian Education - Special Programs	66,936
84.303	Technology Innovation Challenge Grants: From Polson Public Sch	147,855
84.318	Education Technology State Grants	2,967,881
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	545,225
84.324	Special Education-Research and Innovation to Improve Services and Results for Children	425,852

		AMOUNT
84.324	Special Education-Research and Innovation to Improve Services and Results for Children: From Ca State Univ. NR	121,654
84.324	Special Education-Research and Innovation to Improve Services and Results for Children: From Univ. of Conn.	3,258
84.325	Special Education - Personnel Preparation to Improve Services and Results for Children	413,125
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results	182,933
84.330	Advanced Placement Program	356,921
84.331	Grants to States for Incarcerated Youth Offenders	24,699
84.332	Comprehensive School Reform Demonstration	902,548
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	2,340,704
84.335	Child Care Access Means Parents in School	32,051
84.338	Reading Excellence	392,817
84.340	Class Size Reduction	(318)
84.346	Vocational Education - Occupational and Employment Information State Grants	122,901
84.357	Reading First State Grants	4,277,145
84.358	Rural Education	329,904
84.360	Dropout Prevention Programs	172,976
84.365	English Language Acquisition Grants	378,459
84.366	Mathematics and Science Partnerships	644,010
84.366	Mathematics and Science Partnerships: From Libby School Dist	15,070
84.367	Improving Teacher Quality State Grants	13,403,430
84.369	Grants for State Assessments and Related Activities	3,055,080
84.998	American Printing House for the Blind	6,516
84.999	Miscellaneous Non-Major Grants	279,581
	TOTAL	**$107,023,588**
SPECIAL EDUCATION CLUSTER		
84.027	Special Education - Grants to States	31,738,554
84.173	Special Education - Preschool Grants	1,240,679
	TOTAL	**$32,979,233**
STUDENT FINANCIAL ASSISTANCE CLUSTER		
84.007	Federal Supplemental Educational Opportunity Grants	1,755,052
84.032	Federal Family Education Loans	1,710,957
84.033	Federal Work - Study Program	1,764,596

		AMOUNT
84.038	Federal Perkins Loan Program - Federal Capital Contributions	626,297
84.063	Federal Pell Grant Program	32,346,650
93.364	Nursing Student Loan Program	77,740
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	549,083
	TOTAL	$38,830,375
TRIO CLUSTER		
84.042	TRIO-Student Support Services	904,320
84.044	TRIO-Talent Search	851,035
84.047	TRIO-Upward Bound	1,602,715
84.066	TRIO-Educational Opportunity Centers	567,712
84.217	McNair Post - Baccalaureate Achievement	227,095
	TOTAL	$4,152,877
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants: From Pacific Lutheran	42,359
	TOTAL	$42,359
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.003	Public Health and Social Services Emergency Fund	2,749,383
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	19,370
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	69,552
93.043	Special Programs for the Aging-Title III, Part D -DiseasePrevention/Health Promotion Serv	107,001
93.048	Special Programs for the Aging-Title IV and Title II - Discretionary Projects	176,083
93.052	Nation Family Caregiver Support Program	754,418
93.104	Comprehensive Community Mental Health Services for Children with Serious Emot Disturbances	71,762
93.110	Maternal and Child Health Federal Consolidated Programs	203,684
93.116	Project Grant and Cooperative Agreements for Tuberculosis Control Program	202,070
93.127	Emergency Medical Services for Children	118,525
93.130	Primary Care Services-Resource Coordination and Development	267,652
93.150	Projects for Assistance in Transition from Homelessness (PATH)	283,538
93.157	Centers of Excellence	205,994
93.161	Health Program for Toxic Substances and Disease Registry	502,249
93.184	Disabilities Prevention	302,212

		AMOUNT
93.217	Family Planning Services	2,267,481
93.230	Consolidated Knowledge Development and Application Program	753,362
93.234	Traumatic Brain Injury-State Demonstration Grant Program	95,851
93.235	Abstinence Education	147,704
93.238	Cooperative Agreements/ State Treatment Outcomes and Performance Pilot Studies Enhancement	134,190
93.241	State Rural Hospital Flexibility Program	644,256
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	818,332
93.251	Universal Newborn Hearing Screening	105,374
93.256	State Planning Grant - Health Care Access for the Uninsured	24,935
93.259	Rural Access to Emergency Devices Grant	186,653
93.263	Occupational Safety and Health Training Grant	61,450
93.264	Nurse Faculty Loan Program (NFLP)	21,702
93.268	Immunization Grant	4,415,141
93.282	Mental Health National Research Service Awards for Research Training	47,275
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	11,899,197
93.301	Small Rural Hospital Improvement Grants	75,315
93.307	Minority Health and Health Disparities Research	5,312,500
93.359	Nurse Education, Practice and Retention Grants	98,659
93.556	Promoting Safe and Stable Families	1,317,019
93.558	Temporary Assistance for Needy Families (TANF)	29,934,614
93.560	Family Support Payments to States-Assistance Payments	39,851
93.563	Child Support Enforcement	9,106,378
93.566	Refugee and Entrant Assistance-State Administered Programs	134,279
93.568	Low Income Home Energy Assistance	12,806,630
93.569	Community Services Block Grant	3,269,359
93.570	Community Services Block Grant - Discretionary Awards: From Nat. Youth Sports Prg	63,708
93.576	Refugee and Entrant Assistance-Discretionary Grants	15,480
93.586	State Court Improvement Program	85,162
93.590	Community-Based Family Resource and Support Grants	202,745
93.597	Grants to States for Access and Visitation Programs	163,060
93.599	Chafee Education and Training Vouchers Program (ETV)	236,202
93.600	Head Start	174,313

		AMOUNT
93.601	Child Support Enforcement Demonstrations and Special Projects	1,332
93.617	Voting Access for Individuals with Disabilities - Grants to States	106,538
93.630	Developmental Disabilities Basic Support and Advocacy Grants	425,419
93.631	Developmental Disabilities Projects of National Significance	73,543
93.632	University Centers for Excellence in Developmental Disabilities Ed., Research, and Service	425,370
93.643	Children's Justice Grants to States	92,460
93.645	Child Welfare Service-State Grant	688,419
93.658	Foster Care Title IV-E	12,047,341
93.659	Adoption Assistance	4,354,067
93.667	Social Services Block Grant	6,984,225
93.669	Child Abuse and Neglect State Grants	179,087
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters	735,176
93.674	Chafee Foster Care Independent Living	578,737
93.767	State Children's Insurance Program	12,683,751
93.822	Health Careers Opportunities Program	596,267
93.847	Diabetes, Endocrinology and Metabolism Research	6,965
93.894	Resource and Manpower Development in the Environmental Health Sciences	77,632
93.912	Rural Health Outreach-Rural Network Developmental Program: From Critical Illness Found.	29,743
93.912	Rural Health Outreach-Rural Network Developmental Program: From Univ. of Wash. - Medicine	951
93.913	Grants to States for Operation of Offices of Rural Health	155,190
93.917	HIV Care Formula Grants	884,670
93.938	Cooperative Agreements to Support School Health Programs - Prevent the Spread of HIV	389,614
93.940	HIV Prevention Activities-Health Department Based	1,208,778
93.944	HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	64,146
93.945	Assistance Program for Chronic Disease Prevention	926,434
93.958	Block Grants for Community Mental Health Services	973,389
93.959	Block Grants for Prevention and Treatment of Substance Abuse	7,708,972
93.969	Geriatric Education Centers	500,037
93.970	Health Professions Recruitment Program for Indians	546,724
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	342,857
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	565,157
93.991	Preventive Health and Health Services Block Grant	771,186

		AMOUNT
93.994	Maternal and Child Health Services Block Grant to the States	2,353,099
93.999	Miscellaneous Non-Major Grants	658,335
	TOTAL	**$148,827,281**
	AGING CLUSTER	
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,797,102
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,867,598
	TOTAL	**$4,664,700**
	CHILD CARE CLUSTER	
93.575	Child Care and Development Block Grant	14,097,586
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	7,705,166
	TOTAL	**$21,802,752**
	MEDICAID CLUSTER	
93.775	State Medicaid Fraud Control Units	435,504
93.777	State Survey and Certification of Health Care Providers and Suppliers	2,186,704
93.778	Medical Assistance Program	529,005,021
	TOTAL	**$531,627,229**
	CORPORATION FOR NATIONAL & COMMUNITY SERVICE	
94.003	State Commissions	108,037
94.004	Learn and Serve America-School and Community Based Programs: From CORPORATION FOR N	772,628
94.005	Learn & Serve America-Higher Education	22,698
94.006	AmeriCorps	2,405,939
94.007	Planning and Program Development Grants	46,887
94.009	Training and Technical Assistance	100,609
94.013	Volunteers in Service to America	644,753
	TOTAL	**$4,101,551**
	SOCIAL SECURITY ADMINISTRATION	
96.007	Social Security Research and Demonstration	100,636
96.008	Social Security-Benefits Planning, Assistance, and Outreach Program	64,533
	TOTAL	**$165,169**

			AMOUNT
DISABILITY INSURANCE/SSI CLUSTER			
96.001	Social Security - Disability Insurance		5,271,531
		TOTAL	**$5,271,531**

HOMELAND SECURITY

97.001	Pilot Demonstration or Earmarked Projects		471
97.005	State and Local Homeland Security Training Program		37,451
97.012	Boating Safety Financial Assistance		311,396
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants		17,550
97.021	Hazardous Materials Assistance Program		2,167
97.023	Community Assistance Program State Support Services Element		115,095
97.029	Flood Mitigation Assistance		10,300
97.036	Public Assistance Grants		42,676
97.039	Hazard Mitigation Grant		126,242
97.041	National Dam Safety Program		109,864
97.045	Cooperating Technical Partners		14,101
97.046	Fire Management Assistance Grant		54,572
97.047	Pre-Disaster Mitigation		214,801
97.051	State and Local All Hazards Emergency Operations Planning		14,129
97.052	Emergency Operations Centers		(34)
97.054	Community Emergency Response Teams		203,542
97.070	Map Modernization Management Support		55,843
97.999	Miscellaneous Non-Major Grants		8,469
		TOTAL	**$1,338,635**
HOMELAND SECURITY CLUSTER			
97.004	State Domestic Preparedness Equipment Support Program		18,537,353
97.042	Emergency Management Performance Grants		742,792
97.053	Citizen Corps		2,578
97.067	Homeland Security Grant Program		622,809
		TOTAL	**$19,905,532**

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

98.001	USAID Foreign Assistance for Programs Overseas: From Assoc. Liaison Off.	18,463
98.999	Miscellaneous Non-Major Grants	244,510

			AMOUNT
		TOTAL	$262,973
OTHER FEDERAL			
07.000	National Drug Control Program		759
99.999	Other Federal		15,563
		TOTAL	$16,322

RESEARCH AND DEVELOPMENT CLUSTER

DEPARTMENT OF AGRICULTURE

		AMOUNT
10.001	Agricultural Research-Basic and Applied Research	69,671
10.025	Plant and Animal Disease, Pest Control, and Animal Care	171,951
10.072	Wetlands Reserve Program	7,547
10.200	Grants for Agricultural Research, Special Research Grants	4,374,701
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Idaho	551,585
10.200	Grants for Agricultural Research, Special Research Grants: From N. Mexico State Univ.	420,809
10.200	Grants for Agricultural Research, Special Research Grants: From North Dakota Univ.	43,859
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State Univ.	14,057
10.200	Grants for Agricultural Research, Special Research Grants: From South Dak Univ.	986
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Calf. Davis	11,193
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State	135,139
10.200	Grants for Agricultural Research, Special Research Grants: From Wash. State	27,914
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Wash.	3,267
10.202	Cooperative Forestry Research	1,961
10.202	Cooperative Forestry Research: From Univ. of Tenn.	51
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	1,988,590
10.206	Grants for Agricultural Research-Competitive Research Grants	1,330,753
10.206	Grants for Agricultural Research-Competitive Research Grants: From Colorado St Univ.	8,940
10.206	Grants for Agricultural Research-Competitive Research Grants: From Fort Peck C.C.	64,466
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Wyoming	30,520
10.212	Small Business Innovation Research: From MT Microbial Products	25,360
10.215	Sustainable Agriculture Research and Education: From Utah State	31,428
10.217	Higher Education Challenge Grants	229,419
10.217	Higher Education Challenge Grants: From Kansas State	2,684
10.224	Fund for Rural America-Research, Education, and Extension Activities: From Univ. of Minnesota	204,972
10.226	Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants: From Dull Knife C.C.	14,698

		AMOUNT
10.227	1994 Institutions Research Program: From Dull Knife C.C.	10,957
10.227	1994 Institutions Research Program: From Fort Peck C.C.	2,156
10.250	Agricultural and Rural Economic Research	98,940
10.303	Integrated Programs	16,868
10.303	Integrated Programs: From Colorado St Univ.	82,250
10.303	Integrated Programs: From Univ. of Calf. Davis	24,152
10.304	Homeland Security - Agricultural: From Kansas State	32,634
10.450	Crop Insurance	22,770
10.450	Crop Insurance: From Fort Peck C.C.	(15)
10.450	Crop Insurance: From Univ. of Wyoming	30,163
10.455	Community Outreach and Assistance Partnership Program	26,397
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	68,549
10.500	Cooperative Extension Service	45,133
10.500	Cooperative Extension Service: From Wash. State	35,376
10.500	Cooperative Extension Service: From Fort Peck C.C.	(1,321)
10.500	Cooperative Extension Service: From MT Grain Grow. Assoc.	429
10.500	Cooperative Extension Service: From Utah State	14,689
10.500	Cooperative Extension Service: From Univ. of Tenn.	11,524
10.500	Cooperative Extension Service: From Univ. of Wyoming	14,688
10.567	Food Distribution Program on Indian Reservations	63,742
10.652	Forestry Research	3,387,952
10.652	Forestry Research: From Colorado St Univ.	1,130
10.652	Forestry Research: From Nat. Fish Wildife	50,344
10.652	Forestry Research: From A. Carhart	44,770
10.652	Forestry Research: From Nat. Forest Found.	3,463
10.664	Cooperative Forestry Assistance	54,860
10.672	Rural Development, Forestry, and Communities: From Univ. of Idaho	15,138
10.677	Forest Land Enhancement Program	13,462
10.678	Forest Sewardship Program	63,012
10.700	National Agricultural Library	90
10.769	Rural Business Enterprise Grants: From Kansas State	12,603
10.901	Resource Conservation and Development	56,807

		AMOUNT
10.902	Soil and Water Conservation	33,114
10.912	Environmental Quality Incentives Program	21,646
10.914	Wildlife Habitat Incentive Program	5,926
10.960	Technical Agricultural Assistance: From Int. Livestock Res. Inst.	2,147
10.961	Scientific Cooperation and Research	51,756
10.999	Miscellaneous Non-Major Grants	686,730
10.999	Miscellaneous Non-Major Grants: From North Dakota Univ.	18,256
10.999	Miscellaneous Non-Major Grants: From Univ. of Calf. Davis	123,455
10.999	Miscellaneous Non-Major Grants: From Utah State	150,573
10.999	Miscellaneous Non-Major Grants: From Nat. Fish & Wild. Found.	16,970
	TOTAL	**$15,180,806**

DEPARTMENT OF COMMERCE

11.112	Export Promotion Market Development Cooperation	75,298
11.303	Economic Development-Technical Assistance	154,445
11.427	Fisheries Development & Utilization Research and Development Grants	8,847
11.431	Climate and Atmospheric Research	178,947
11.439	Marine Mammal Data Program	120
11.440	Environmental Sciences, Applications, Data, and Education	(6,197)
11.463	Habitat Conservation	10,158
11.478	Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	7,445
11.552	Technology Opportunities Program	124,479
11.611	Manufacturing Extension Partnership	452,942
	TOTAL	**$1,006,484**

DEPARTMENT OF DEFENSE

12.002	Procurement Technical Assistance For Business Firms	3,214,227
12.100	Aquatic Plant Control	(13,669)
12.114	Collaborative Research and Development: From Univ. of Alabama	49,672
12.300	Basic and Applied Scientific Research	2,464,135
12.300	Basic and Applied Scientific Research: From Center for Innovation	68,277
12.300	Basic and Applied Scientific Research: From Ligocyte Pharm.	182,833
12.300	Basic and Applied Scientific Research: From Scientific Materials	822,452
12.420	Military Medical Research and Development	1,175,913

		AMOUNT
12.431	Basic Scientific Research	1,273,621
12.630	Basic, Applied, and Advanced Research in Science and Engineering	642,723
12.800	Air Force Defense Research Sciences Program	348,733
12.901	Mathematical Sciences Grants Program	11,122
12.902	Information Security Grant Program: From Univ. of Col.	56,862
12.910	Reseach and Technology Development	570,107
12.910	Reseach and Technology Development: From Alutiq Security & Tech	1,031,010
12.999	Miscellaneous Non-Major Grants: From Colorado St Univ.	290,700
	TOTAL	**$12,188,718**

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.246	Community Development Block Grants/Brownfields Economic Development Initiative	15,875
14.862	Indian Community Development Block Grant Program	95
14.901	Healthy Homes Demonstration Grants	78,849
	TOTAL	**$94,819**

DEPARTMENT OF THE INTERIOR

15.034	Agriculture on Indian Lands	8,021
15.199	Tongue River Rehabilitation Grant	24,224
15.222	Cooperative Inspection Agreements with States and Tribes	237,188
15.224	Cultural Resource Management	830,894
15.225	Recreation Resource Management	54,381
15.228	Wildland Urban Interface Community and Rural Fire Assistance	29,812
15.252	Abandoned Mine Land Reclamation (AMLR) Program	69,161
15.299	Miscellaneous Non-Major Grants	2,501,136
15.504	Water Reclamation and Water Reuse Program	115,366
15.608	Fish and Wildlife Management Assistance	407,513
15.611	Wildlife Restoration	48,044
15.615	Cooperative Endangered Species Conservation Fund: From Blackfoot Challenge	9,942
15.617	Wildlife Conservation and Appreciation	18,978
15.634	State Wildlife Grants: From North Dakota Game & Fish	44,346
15.635	Neotropical Migratory Bird Conservation	(3,347)
15.642	Challenge Cost Share	4,000

		AMOUNT
15.699	USDI/Fish & Wildlife Service	201,608
15.805	Assistance to State Water Resources Research Institutes	64,757
15.807	Earthquake Hazards Reduction Program	23,413
15.808	U.S. Geological Survey-Research and Data Acquisition	1,226,505
15.810	National Cooperative Geologic Mapping Program	223,652
15.811	Gap Analysis Program	289,729
15.812	Cooperative Research Units Program	664,788
15.904	Historic Preservation Fund Grants-in-Aid	5,000
15.910	National Natural Landmarks Program	924,562
15.915	Technical Preservation Services	248,555
15.915	Technical Preservation Services: From Univ. of Wy. NPS Ctr.	636
15.916	Outdoor Recreation: Acquisition, Development and Planning	32,697
15.919	Urban Park and Recreation Recovery Program	22,972
15.921	Rivers, Trails and Conservation Assistance	131,818
15.923	National Center for Preservation Technology and Training	125,416
15.999	Miscellaneous Non-Major Grants	1,905,233
	TOTAL	**$10,491,000**
DEPARTMENT OF JUSTICE		
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	57,052
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	689,857
16.609	Community Prosecution and Project Safe Neighborhoods	40,688
	TOTAL	**$787,597**
DEPARTMENT OF LABOR		
17.249	Employment Services and Job Training: Pilot and Demonstration Programs	733
	TOTAL	**$733**
DEPARTMENT OF STATE		
19.432	Overseas Educational Advising	3,105
19.999	Miscellaneous Grants	33,685
	TOTAL	**$36,790**
DEPARTMENT OF TRANSPORTATION		
20.106	Airport Improvement Program: From G5 Technologies	244,109

		AMOUNT
20.205	Highway Planning and Construction	296,273
20.215	Highway Training and Education: From S. Carolina Univ.	11,175
20.600	State and Community Highway Safety	139,037
20.999	Miscellanous Non-major	2,487,793
20.999	Miscellanous Non-major: From California DOT	69,010
20.999	Miscellanous Non-major	(3,731)
	TOTAL	$3,243,666
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Aerospace Education Services Program	5,489,912
43.001	Aerospace Education Services Program: From Portland St Univ.	174,199
43.001	Aerospace Education Services Program: From Auburn University	72,396
43.001	Aerospace Education Services Program: From Univ. of Calif. Berkeley	335,500
43.001	Aerospace Education Services Program: From Calif. Inst. of Techology	30,000
43.001	Aerospace Education Services Program: From Carnigie Institute	2,646
43.001	Aerospace Education Services Program: From NASA Goodard Flight Ctr	90,059
43.001	Aerospace Education Services Program: From John Hopkins Univ.	17,276
43.001	Aerospace Education Services Program: From Lockheed Martin Corp.	138,358
43.001	Aerospace Education Services Program: From Univ. of N. Dakota	(36)
43.001	Aerospace Education Services Program: From Salish Kootenai Col.	62,518
43.001	Aerospace Education Services Program: From Smithsonian Astro. Obs.	997
43.001	Aerospace Education Services Program: From Univ. of Wash.	24,936
43.002	Technology Transfer	647,186
43.002	Technology Transfer: From Aerodyne Research Inc.	(4,582)
43.002	Technology Transfer: From Carnigie Institute	84,326
43.002	Technology Transfer: From Calf State Univ MB	6,197
43.002	Technology Transfer: From Univ. of N. Dakota	46,341
43.999	Miscellaneous Non-Major Grants	2,816,976
43.999	Miscellaneous Non-Major Grants: From CA Inst of Tech	126,783
43.999	Miscellaneous Non-Major Grants: From Umatilla Tribe	54,493
43.999	Miscellaneous Non-Major Grants: From NASA Jet Propulsion	19,931
43.999	Miscellaneous Non-Major Grants: From Colorado St Univ.	6,763
43.999	Miscellaneous Non-Major Grants: From Sw Research Inst.	35,996

		AMOUNT
43.999	Miscellaneous Non-Major Grants: From MT Aerospace Auth.	33,325
43.999	Miscellaneous Non-Major Grants: From Sci. Appl. Intern. Corp.	41,354
	TOTAL	$10,353,850
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES		
45.024	Promotion of the Arts-Grants to Organizations and Individuals: From DANCE USA	1
45.160	Promotion of the Humanities-Fellowships and Stipends	887
	TOTAL	$888
NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants	992,506
47.041	Engineering Grants: From Advr Inc.	5,171
47.041	Engineering Grants: From Univ. of Calif. Berkeley	117,331
47.041	Engineering Grants: From Micro Powder Sol.	(8,450)
47.041	Engineering Grants: From Resonon Inc.	30,119
47.049	Mathematical and Physical Sciences	1,885,863
47.049	Mathematical and Physical Sciences: From Ctr for Adaptive Optics	29,362
47.049	Mathematical and Physical Sciences: From Univ. of Missouri	382,240
47.050	Geosciences	1,743,318
47.050	Geosciences: From MIT	62,021
47.050	Geosciences: From Ohio Univ.	155,148
47.050	Geosciences: From Univ. of Oregon	17,795
47.070	Computer and Information Science and Engineering	387,290
47.070	Computer and Information Science and Engineering: From Salish Kootenai Col.	8,783
47.074	Biological Sciences	5,531,664
47.074	Biological Sciences: From Duke Univ.	92,771
47.074	Biological Sciences: From Am Inst. of Biological	119,340
47.074	Biological Sciences: From Univ. of Calf. S.D.	15,150
47.074	Biological Sciences: From Idaho St. Univ.	96,431
47.075	Social, Behavioral, and Economic Sciences	543,128
47.076	Education and Human Resources	3,948,536
47.076	Education and Human Resources: From City Univ. of NY	167,797
47.076	Education and Human Resources: From Nat. Sci. Teachers Ass	364,697
47.078	Polar Programs	412,709

			AMOUNT
47.078	Polar Programs: From San Diego St Univ		38,834
47.999	Miscellaneous Non-Major Grants: From Mycotech Corporat		22,673
47.999	Miscellaneous Non-Major Grants: From Assoc. of St Geologists		1,311
		TOTAL	$17,163,538
SMALL BUSINESS ADMINISTRATION			
59.051	New Markets Venture Capital		242,539
		TOTAL	$242,539
ENVIRONMENTAL PROTECTION AGENCY			
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act		10,415
66.460	Nonpoint Source Implementation Grants: From Blackfoot Challenge		742,528
66.460	Nonpoint Source Implementation Grants: From Sheridan County		49,154
66.460	Nonpoint Source Implementation Grants: From Lower Musselshell		40,864
66.460	Nonpoint Source Implementation Grants: From Stillwater County		55,672
66.460	Nonpoint Source Implementation Grants: From Liberty County Co		34,439
66.463	Water Quality Cooperative Agreements		32,966
66.509	Science To Achieve Results (STAR) Program: From Temple Univ.		66,212
66.599	Miscellaneous Non-Major Grants		121,237
66.599	Miscellaneous Non-Major Grants: From Colorado St Univ.		75,131
66.605	Performance Partnership Grants: From Lincoln County		35,378
66.606	Surveys, Studies, Investigations and Special Purpose Grants		1,313,359
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From CH2M Hill		15,318
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From Univ. of Illinois		(3,422)
66.708	Pollution Prevention Grants Program		23,627
66.709	Multi-Media Capacity Building Grants for States and Tribes		71,325
66.714	Pesticide Environmental Stewardship - Regional Grants		36,250
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach		179,566
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements: From CDM Corp.		158,609
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements: From CH2M Hill		6,741
66.806	Superfund Technical Assistance Grants for Citizen Groups at Priority Sites		907
66.808	Solid Waste Management Assistance		2,738

		AMOUNT
66.951	Environmental Education Grants	35,638
66.999	Miscellaneous Non-Major Grants: From Colorado Mountain Coll.	20,000
66.999	Miscellaneous Non-Major Grants: From Organic Farming Res. Fon.	3,023
	TOTAL	$3,127,675

DEPARTMENT OF ENERGY

81.022	Used Energy-Related Laboratory Equipment Grants: From Center for Innovation	49,305
81.049	Office of Science Financial Assistance Program	913,310
81.049	Office of Science Financial Assistance Program: From Bechtel BWXT	135
81.049	Office of Science Financial Assistance Program: From UT Battelle LLC	22,271
81.049	Office of Science Financial Assistance Program: From Inland NW Res All	242,267
81.049	Office of Science Financial Assistance Program: From San Diego St Univ	16,171
81.049	Office of Science Financial Assistance Program: From San Diego St Univ	49,985
81.049	Office of Science Financial Assistance Program: From Sandia Corp	30,569
81.049	Office of Science Financial Assistance Program: From Univ. of Calf.	34,215
81.057	University Coal Research	261,665
81.064	Office of Scientific and Technical Information: From Univ. of Calf. Lawer.	2,582
81.079	Regional Biomass Energy Programs	59,655
81.087	Renewable Energy Research and Development	79,105
81.087	Renewable Energy Research and Development: From Battelle	40,183
81.087	Renewable Energy Research and Development: From Bechtel BWXT Idaho	14,833
81.087	Renewable Energy Research and Development: From Big Sky Econ. Dev. Auth	232,404
81.087	Renewable Energy Research and Development: From Fuel Cell Energy Inc.	102,844
81.087	Renewable Energy Research and Development: From Pac. NW Nat. Labratory	1,215,277
81.087	Renewable Energy Research and Development: From Sandia Nat. Laboratories	266,673
81.089	Fossil Energy Research and Development	388,785
81.089	Fossil Energy Research and Development: From Virginia Polytech	220,173
81.104	Office of Environmental Cleanup and Acceleration	134,010
81.104	Office of Environmental Cleanup and Acceleration: From MSE	397,929
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training	89,059
81.119	State Energy Program Special Projects	752,045
	TOTAL	$5,615,450

		AMOUNT
DEPARTMENT OF EDUCATION		
84.021	International: Overseas-Group Projects Abroad	46,456
84.042	TRIO-Student Support Services	380,204
84.116	Fund for the Improvement of Postsecondary Education	312,944
84.133	National Institute on Disability and Rehabilitation Research	660,862
84.133	National Institute on Disability and Rehabilitation Research: From Univ. of Kansas	207
84.215	Fund for Improvement of Education	100,783
84.215	Fund for Improvement of Education: From Golden Triangle	19,379
84.215	Fund for Improvement of Education: From Anaconda Public	203,607
84.324	Special Education-Research and Innovation to Improve Services and Results for Children: From Univ. of CA North	14,276
84.350	Transition to Teaching	988,114
	TOTAL	$2,726,832
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers: From MT Transport. Partnershop	45,146
93.113	Biological Response to Environmental Health Hazards	675,888
93.115	Biometry and Risk Estimation Health Risks from Environmental Exposures	278,644
93.121	Oral Diseases and Disorders Research	261,043
93.136	Injury Prevention and Control Research and State and Community Based Programs	255,151
93.173	Research Related to Deafness and Communication Disorders	257,828
93.173	Research Related to Deafness and Communication Disorders: From Univ. of Texas	54,252
93.178	Nursing Workforce Diversity	308,515
93.184	Disabilities Prevention	317,727
93.211	Telehealth Network Grants	123,759
93.226	Research on Healthcare Costs, Quality and Outcomes	256,861
93.242	Mental Health Research Grants	641,488
93.247	Advanced Education Nursing Grant Program	352,461
93.262	Occupational Safety and Health Program: From University of Mis	120,797
93.273	Alcohol Research Programs	18,357
93.279	Drug Abuse Research Programs	39,069
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	477,286

		AMOUNT
93.301	Small Rural Hospital Improvement Grants	366,240
93.358	Advanced Education Nursing Traineeships	18,414
93.361	Nursing Research	413,431
93.389	National Center for Research Resources	13,332,767
93.393	Cancer Cause and Prevention Research: From MT Sinai Sch of Med.	41,459
93.395	Cancer Treatment Research	341,060
93.396	Cancer Biology Research	226,920
93.398	Cancer Research Manpower	130,594
93.647	Social Services Research and Demonstration	147,186
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	791,237
93.824	Basic/Core Area Health Education Centers: From Univ. of Wash.	89,709
93.837	Heart and Vascular Diseases Research	800,619
93.838	Lung Diseases Research	671,279
93.838	Lung Diseases Research: From Univ. of Calif.	378,910
93.838	Lung Diseases Research: From Univ. of Rochester	451,626
93.839	Blood Diseases and Resources Research	100,838
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	368,739
93.849	Kidney Diseases, Urology and Hematology Research	70,354
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	2,111,155
93.855	Allergy, Immunology and Transplantation Research	3,329,422
93.856	Microbiology and Infectious Diseases Research	3,912,228
93.856	Microbiology and Infectious Diseases Research: From Colorado State Univ.	134,125
93.856	Microbiology and Infectious Diseases Research: From Seattle Biomed. Inst.	447
93.856	Microbiology and Infectious Diseases Research: From Univ. of Wash.	105,503
93.859	Biomedical Research and Research Training	1,606,661
93.862	Genetics and Developmental Biology Research	625
93.865	Child Health and Human Development Extramural Research	265,919
93.866	Aging Research	58,486
93.867	Vision Research	206,999
93.999	Miscellaneous Non-Major Grants: From Univ. of Wash.	360,879
93.999	Miscellaneous Non-Major Grants: From Scripps Inst.	315,972

			AMOUNT
93.999	Miscellaneous Non-Major Grants: From Sequoia Sci. Inc.		93,254
		TOTAL	$35,727,329
SOCIAL SECURITY ADMINISTRATION			
96.007	Social Security Research and Demonstration		28,503
		TOTAL	$28,503
HOMELAND SECURITY			
93.996	Bioterrorism Training and Curriculum Development Program		158,365
		TOTAL	$158,365
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT			
98.002	Cooperative Development Program (CDP): From Univ.of Co. Dev.		50,113
98.005	Institutional Support Assistance (ISA)		67,693
98.005	Institutional Support Assistance (ISA): From Univ. of Hawaii Manoa		597,861
98.005	Institutional Support Assistance (ISA): From Univ. of Calf. Davis		(11,850)
		TOTAL	$703,817
	TOTAL RESEARCH AND DEVELOPMENT CLUSTER		$118,879,399
	TOTAL EXPENDITURES OF FEDERAL AWARDS		$1,813,528,275

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Note 1. Basis of Accounting

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.567, #10.569, #10.570 and #10.565) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2005, Montana distributed $468,500 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $6,932,220 in commodities in fiscal year 2005. The value at June 30, 2005 of commodities stored at the state's warehouse is $1,888,055 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2005 in the Water Pollution Control Revolving Fund Program is $123,406,127.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents administrative costs expended as of June 30, 2005. The amount of loans outstanding for the program as of June 30, 2005 is $52,140,592.

Special Economic Development and Adjustment Assistance Program
The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2005 is $296,901.

Temporary Assistance to Needy Families Loan Program
The amount presented for the Temporary Assistance to Needy Families Loan Program (CFDA #93.558) represents federal contributions, plus the administrative costs expended as of June 30. The amount of housing loans outstanding as of June 30, 2005 is $412,689.

Federal Family Education Loans
The Montana Guaranteed Student Loan Program (MGSLP) guaranteed $148,250,807 (net) in new loans for the Federal Family Education Loans (CFDA #84.032) program during FY2005. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirement was $50,274,900 at June 30, 2005. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's Operating Fund during FY2005 was $610,544. In addition, MGSLP received or accrued revenue from the U.S. Department of Education in FY 2005 of $15,377,265 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions
The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2005. The amount of loans outstanding as of June 30, 2005 is $30,128,513.

Nursing Student Loan Program
The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2005 is $1,767,658.

Childhood Immunization Grants
The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2005. The state used the CDC price list to calculate the value of doses received. During fiscal year 2005, Montana received 166,384 vaccine doses valued at $3,427,148.

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana $11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during FY 2005. The amount of the loan outstanding as of June 30, 2005 is $9,561,538.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the State of Montana "...a sum of money not to exceed the lesser of (1) $3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project including reimbursable interest during construction..." The total loan repayable is $2,990,129 and interest during construction is $281,857. The amount, as of June 30, 2005, of loan outstanding is $2,612,671 and of interest during construction outstanding is $224,944.

Note 2. Type A Federal Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the level of federal award expenditures to be used in defining Type A and Type B federal assistance programs. Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed $12,633,931 for the biennial period

Note 3. CFDA

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.*99, **.999, or **.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or

development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. In cases where the federal agency does not have a designated CFDA #, the program was assigned a CFDA # in the format 99.999.

Note 4. Federal Excess Personal Property

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

CFDA #	Program	FY05 Amount	Inventory
10.664	Cooperative Forestry Assistance	$732,661	$5,481,746
12.999	Misc. Non. Major	$0	$53,590
47.999	National Science Foundation	$664,050	$1,563,553

Note 5. Books for the Blind and Physically Handicapped:

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2005, was $1,736,795. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 6. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225), as well as a breakdown between administrative costs and benefit payments:

UI Administrative Costs	$8,887,617
State UI Benefits	67,370,627
Federal UI Benefits	7,920,938
Total	$ 84,179,182

Note 7. Subgrants to State Agencies

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 8. Subgrants to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2005.

CFDA Number	Program Title	Amount Provided To Subrecipient
10.200	Grants for Agricultural Research, Special Research Grants	1,048,648
10.206	Grants for Agricultural Research & Competitive Research Grants	61,141
10.217	Higher Education Challenge Grants	51,248
10.250	Agricultural and Rural Economic Research	41,617
10.302	Initiative for Future Agriculture and Food Systems	385,522
10.450	Crop Insurance	5,732
10.455	Community Outreach and Assistance Partnership Program	3,165
10.500	Cooperative Extension Service	115,530
10.550	Food Donation	2,422,634
10.553	School Breakfast Program	4,112,660
10.556	Special Milk Program for Children	42,361
10.557	Special Supplemental Nutrition Program for WIC	3,367,532
10.558	Child and Adult Care Food Program	8,826,552
10.559	Summer Food Program for Children	656,941
10.560	State Administrative Expenses for Child Nutrition	189,287
10.570	Nutrition Services Incentive	692,751
10.572	WIC Farmers' Market Nutrition Program (FMNP)	44,848
10.652	Forestry Research	70,968
10.664	Cooperative Forestry Assistance	2,625,890
10.665	Schools and Roads-Grants to States	13,417,136
10.677	Forest Land Enhancement Program	161,300
10.773	Rural Business Opportunity Grants	22,851
10.901	Resource Conservation and Development	24,360
10.999	Department of Agriculture - Miscellaneous	727,983
11.112	Export Promotion Market Development Cooperation	10,543
11.431	Climate and Atmospheric Research	18,570
12.002	Procurement Technical Assistance For Business Firms	734,901
12.300	Basic and Applied Scientific Research	389,016
12.420	Military Medical Research and Development	68,776
12.630	Basic, Applied, and Advanced Research in Science and Engineering	2,760
12.910	Research & Technology Development	188,881
14.228	Community Development Block Grant/State's Program	8,288,280
14.239	Home Investment Partnerships Program	6,609,325
14.246	Community Development Block Grants/Brownfields Economic Development Initiative	5,736
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	121,226
14.871	Section 8 Housing Choice Vouchers	1,295,549
15.224	Cultural Resource Management	162,497
15.228	Wildland Urban Interface Community and Rural Fire Assistance	1,244,487
15.299	Miscellaneous Non-Major Grants	379,855
15.608	Fish and Wildlife Management Assistance	127,594
15.805	Assistance to State Water Resources Research Institutes	386
15.808	U.S. Geological Survey-Research and Data Collection	6,857
15.812	Cooperative Research Units Program	5,465
15.904	Historic Preservation Fund Grants-In-Aid	23,668
15.914	National Register of Historic Places	126,955
15.919	Urban Park and Recreation Recovery Program	15,470
15.921	Rivers, Trails and Conservation Assistance	20,110
15.999	Miscellaneous Department of the Interior	518,083
16.523	Juvenile Accountability Incentive Block Grants	514,916
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	616,092
16.548	Title V Delinquency Prevention Program	85,000
16.549	Part E State Challenge Activities	14,352
16.554	National Criminal History Improvement Program (NCHIP)	140,748
16.575	Crime Victim Assistance	1,330,571
16.579	Byrne Formula Grant Program	1,722,056
16.588	Violence Against Women Formula Grants	608,108
16.592	Local Law Enforcement Block Grant Program	158,613
16.609	Community Prosecution and Project Safe Neighborhoods	7,500
16.710	Public Safety Partnership and Community Policing Grants	107,680
16.727	Enforcing Underage Drinking Laws Program	324,729
17.235	Senior Community Service Employment Program	378,283
17.249	Employment Services and Job Training: Pilot and Demo. Programs	15,480
17.258	WIA Adult Program	2,521,210
17.259	WIA Youth Activities	2,563,894
17.260	WIA Dislocated Workers	2,185,341
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	3,000
17.267	WIA Incentive Grants -Section 503 Grants to States	303,300
19.424	Educational Partnerships Program	15,136
20.106	Airport Improvement Program	148,455
20.205	Highway Planning and Construction	5,016,802
20.500	Federal Transit - Capital Investment Grants	614,157
20.507	Federal Transit - Formula Grants	1,142,026
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	81,600

CFDA Number	Program Title	Amount Provided To Subrecipient
20.514	Transit Planning and Research	79,843
20.600	State and Community Highway Safety	721,796
20.602	Occupant Protection	71,392
20.603	Federal Highway Safety Data Improvements Incentive Grants	12,628
20.604	Safety Incentive Grants for Use of Seatbelts	17,362
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	1,750
20.607	Alcohol Open Container Requirements	653,545
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	207,653
20.701	University Transportation Centers Program	(595)
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	850
21.999	Treasury Miscellaneous	561,829
39.011	Election Reform Payments	511,971
43.001	Aerospace Education Services Program	91,367
43.002	Technology Transfer	14,373
43.999	Miscellaneous Non-Major Grants	876,213
45.025	Promotion of the Arts-Partnership Agreements	387,939
45.310	State Library Program	139,274
47.041	Engineering Grants	53,355
47.049	Mathematical and Physical Sciences	35,084
47.050	Geosciences	115,638
47.074	Biological Sciences	780,528
47.075	Social, Behavioral, and Economic Sciences	11,019
47.076	Education and Human Resources	1,410,070
47.078	Polar Programs	2,074
59.037	Small Business Development Center	392,633
66.599	Miscellaneous Non-Major Grants	313,991
66.606	Surveys, Studies, Investigations and Special Purpose Grants	53,307
66.811	Brownfield Pilots Cooperative Agreements	690
81.049	Office of Science Financial Assistance Program	12,687
81.087	Renewable Energy Research and Development	81,000
81.089	Fossil Energy Research and Development	4,867
81.104	Office of Environmental Cleanup and Acceleration	35,000
81.119	State Energy Program Special Projects	527,140
84.002	Adult Education-State Grant Program	1,224,375
84.010	Title I Grants to Local Educational Agencies	38,846,422
84.011	Migrant Education-Basic State Grant Program	866,598
84.013	Title I Program for Neglected and Delinquent Children	128,262
84.027	Special Education - Grants to States	30,117,452
84.048	Vocational Education - Basic Grants to States	4,106,050
84.069	Leveraging Educational Assistance Partnership	43,662
84.116	Fund for the Improvement of Postsecondary Education	14,197
84.133	National Institute on Disability and Rehabilitation Research	20,587
84.144	Migrant Education_Coordination Program	110,000
84.153	Business and International Education	1,373
84.173	Special Education - Preschool Grants	1,160,625
84.186	Safe & Drug Free Schools and Communities - State Grants	1,991,875
84.196	Education for Homeless Children and Youth	135,821
84.213	Even Start - State Educational Agencies	984,462
84.215	Fund for the Improvement of Education	187,870
84.235	Rehabilitation Services Demonstration and Training Programs	159,790
84.243	Tech-Prep Education	14,822
84.264	Rehabilitation Training-Continuing Education	25,027
84.287	Twenty-First Century Community Learning Centers	4,325,355
84.298	State Grants for Innovative Programs	1,318,431
84.318	Education Technology State Grants	2,837,716
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	65,725
84.324	Special Education-Research and Innovation to Improve Services and Results for Children with Disabilitie:	62,681
84.325	Special Education - Personnel Prep. to Improve Serv. & Results for Children with Disabilities	77,007
84.330	Advanced Placement Incentive Program	209,570
84.332	Comprehensive School Reform Demonstration	838,197
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	696,451
84.338	Reading Excellence	376,841
84.340	Class Size Reduction	(318)
84.350	Transition to Teaching	240,965
84.357	Reading First State Grants	3,624,804
84.358	Rural Education	268,608
84.360	Dropout Prevention Programs	71,104
84.365	English Language Acquisition Grants	287,757
84.366	Mathematics and Science Partnerships	639,386
84.367	Improving Teacher Quality State Grants	12,486,153
93.003	Public Health and Social Services Emergency Fund	30,909
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	19,270
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	69,552

CFDA Number	Program Title	Amount Provided To Subrecipient
93.043	Special Programs for the Aging - Title III, Part D: Disease Prevention	107,001
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,501,605
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,536,362
93.048	Special Programs for the Aging - Title IV & and Title II - Discretionary Proj.	169,172
93.052	Nation Family Caregiver Support Program	699,827
93.110	Maternal and Child Health Federal Consolidated Programs	10,919
93.113	Biological Response to Environmental Health Hazards	119,627
93.115	Biometry and Risk Estimation-Health Risks from Environmental Exposures	27,892
93.150	Projects for Assistance in Transition from Homelessness (PATH)	279,474
93.173	Research Related to Deafness and Communication Disorders	12,294
93.184	Disabilities Prevention	76,528
93.217	Family Planning Services	1,936,118
93.226	Research on Healthcare Costs, Quality and Outcomes	15,993
93.230	Consolidated Knowledge Development and Application (KD&A) Program	598,279
93.235	Abstinence Education	17,971
93.241	State Rural Hospital Flexibility Program	323,800
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	16,109
93.273	Alcohol Research Programs	4,979
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	141,805
93.301	Small Rural Hospital Improvement Grants	419,459
93.307	Minority Health and Health Disparities Research	5,312,500
93.361	Nursing Research	12,107
93.389	National Center for Research Resources	4,300,269
93.556	Promoting Safe and Stable Families	1,197,633
93.566	Refugee and Entrant Assistance-State Administered Programs	100,740
93.575	Child Care and Development Block Grant	4,776,356
93.590	Community-Based Family Resource and Support Grants	174,414
93.597	Grants to States for Access and Visitation Programs	10,000
93.599	Chafee Education and Training Vouchers Program (ETV)	122,140
93.600	Head Start	128,954
93.617	Voting Access for Individuals with Disabilities-Grants to States	106,538
93.630	Developmental Disabilities Basic Support and Advocacy Grants	440,419
93.647	Social Services Research and Demonstration	46,892
93.658	Foster Care Title IV-E	2,617,595
93.669	Child Abuse and Neglect State Grants	34,218
93.671	Family Violence Prevention and Services/Grants for Battered Women	720,166
93.674	Chafee Foster Care Independent Living	326,342
93.778	Medical Assistance Program	24,067
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	174,826
93.822	Health Careers Opportunities Program	291,934
93.824	Basic/Core Area Health Education Centers	16,177
93.837	Heart and Vascular Diseases Research	124,727
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	32,569
93.855	Allergy, Immunology and Transplantation Research	1,632,984
93.856	Microbiology and Infectious Diseases Research	117,170
93.865	Child Health and Human Development Extramural Research	46,498
93.958	Block Grants for Community Mental Health Services	953,841
93.959	Block Grants for Prevention and Treatment of Substance Abuse	6,653,221
93.969	Geriatric Education Centers	31,937
93.991	Preventive Health and Health Services Block Grant	152,213
93.994	Maternal and Child Health Services Block Grant to the States	1,107,982
93.996	Bioterrorism Training and Curriculum Development Program	3,249
94.004	Learn and Serve America - School and Community Based Program	306,509
94.005	Learn and Serve America - Higher Education	3,700
94.006	Americorps	1,814,193
96.007	Social Security Research and Demonstration	84,030
97.004	State Domestic Preparedness Equipment Support Program	11,065,352
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	17,550
97.036	Public Assistance Grants	34,623
97.039	Hazard Mitigation Grant	74,797
97.042	Emergency Management Performance Grants	670,764
97.047	Pre-Disaster Mitigation	97,064
97.051	State and Local All Hazards Emergency Operations Planning	70,179
97.053	Citizen Corps	3,763
97.054	Community Emergency Response Teams	134,822
97.067	Homeland Security Grant Program	301,666
98.001	USAID Foreign Assistance for Programs Overseas	12,500
98.005	Institutional Support Assistance (ISA)	279,927
	Total	**252,743,734**

FY04 Financial Section

FY04 Financial Section

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the basic financial statements of the state of Montana as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

1. The Public Employees' Retirement Board manages eight defined benefit retirement systems. The Montana Constitution and state law require these systems be actuarially sound. The actuarial valuation as of July 1, 2004, indicates the Public Employees' Retirement System – Defined Benefit Retirement Plan, Sheriffs' Retirement System, and Game Wardens' and Peace Officers' Retirement System are not actuarially sound.

2. The Teachers' Retirement Board administers a defined benefit retirement system. The Montana Constitution requires this system to be actuarially sound. The actuarial valuation as of July 1, 2004, indicates the Teachers' Retirement System is not actuarially sound.

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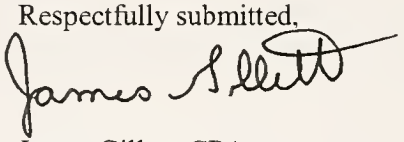
We also noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended solely for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

November 29, 2004

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2004, which collectively comprise the state's basic financial statements, as follows:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet - Governmental Funds - to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
- Statement of Net Assets - Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
- Statement of Cash Flows - Proprietary Funds
- Statement of Fiduciary Net Assets - Fiduciary Funds
- Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
- Combining Statement of Net Assets - Component Units
- Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which represents 0.07 and 1.55 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Montana University System Self-Funded Workers' Compensation Program, which represents 0.04 and 0.10 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units which represent 10.51 and 5.69 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.

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Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund and the aggregate remaining fund information of the state of Montana, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages B-5 through B-15 and B-88 through B-90, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on pages B-91 through B-130 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have issued our report dated November 29, 2004, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report, on page B-1, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

November 29, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights
The assets of the State exceeded its liabilities at the end of fiscal year 2004 by $4.6 billion (reported as net assets) compared with $4.3 billion at the end of fiscal year 2003. Of this amount, $238 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of $874 million compared with $643.3 million at fiscal year 2003.

Fund Highlights
As of the close of fiscal year 2004, the State's governmental funds reported combined ending fund balances of $2.3 billion compared with $2.2 billion at fiscal year 2003. Of this amount, $66.6 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of $2.2 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was $132.9 million compared with $43.1 million in fiscal year 2003, which is a increase of $89.8 million (or 208.4%).

The State's business-type activity funds reported net assets at the close of fiscal year 2004 in the amount of $236.3 million compared with the fiscal year-end 2003 net assets of $230.6 million. $221.4 million of the business-type activity fund equity was restricted at fiscal year-end 2004 leaving an unrestricted balance of $14.9 million. This represents a $4.4 million (or 22.8%) decrease from the fiscal year-end 2003 business-type activity fund unrestricted net asset balance of 19.3 million.

Long-term Debt
The State's total bonds and notes payable for governmental activities decreased from $330.8 million in fiscal year 2003 to $305.1 million (or 7.8%) in fiscal year 2004.

Business-type activities reported bonds and notes payable of $7.9 million at fiscal year-end 2004. This represents a decrease of $2.5 million (or 24%) over the fiscal year-end 2003 reported amount of $10.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules). These components are described below:

Basic Financial Statements
The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements and combining major component unit financial statements.* These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements
The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using

the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

Business-type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

Fund Financial Statements (Reporting the State's Major Funds)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund,

the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds Financial Statements – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. Internal Service Fund reports activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the accrual basis of accounting.

Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

Required Supplementary Information
The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position improved over the last fiscal year. This improvement was caused by the combination of budgetary cuts enacted in the previous legislative session, stronger than expected statewide economic performance, an almost non-existent 2004 fire season, and the receipt of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA).

Net Assets
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled $4.6 billion at the end of fiscal year 2004. Net assets of the governmental activities increased $287 million (or 7%), and business-type activities had a $5.7 million (or 2.5%) increase.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Net Assets
As of Fiscal Year Ended June 30
(expressed in thousands)

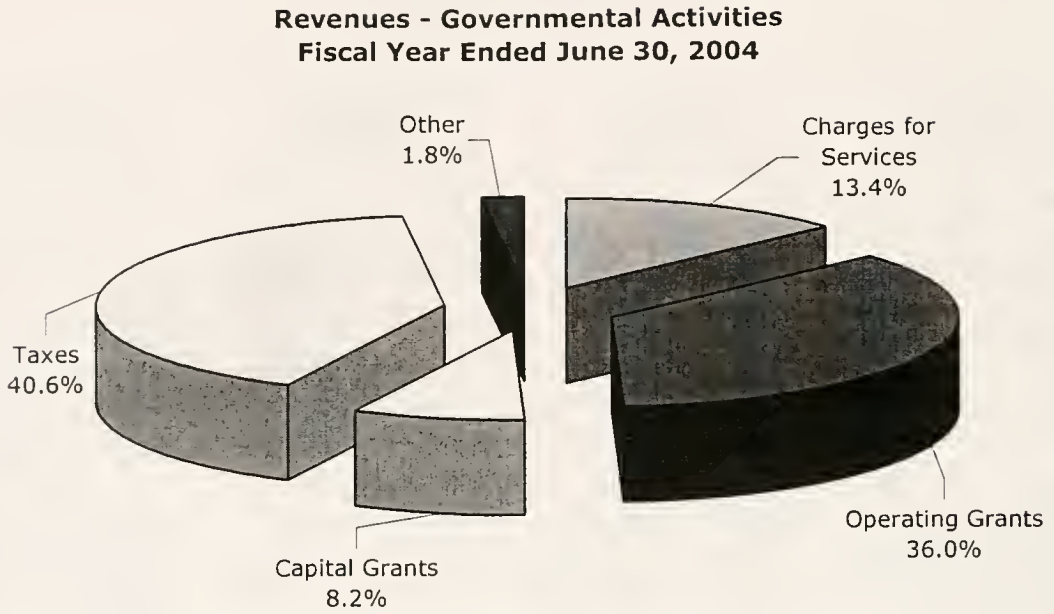
	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2004	2003	2004	2003	2004
Current and other assets	$2,733,511	$2,952,118	$326,525	$350,552	$3,060,036	$3,302,670
Capital assets	2,225,327	2,409,128	10,195	8,925	2,235,522	2,418,053
Total assets	4,958,838	5,361,246	336,720	359,477	5,295,558	5,720,723
Long-term liabilities	369,306	336,669	10,010	9,896	379,316	346,565
Other liabilities	545,689	693,483	96,107	113,274	641,796	806,757
Total liabilities	914,995	1,030,152	106,117	123,170	1,021,112	1,153,322
Invested in capital assets, net of related debt	2,049,489	2,250,177	9,084	8,925	2,058,573	2,259,102
Restricted	1,817,193	1,858,088	202,268	212,473	2,019,461	2,070,561
Unrestricted	177,161	222,829	19,251	14,909	196,412	237,738
Total net assets	$4,043,843	$4,331,094	$230,603	$236,307	$4,274,446	$4,567,401

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

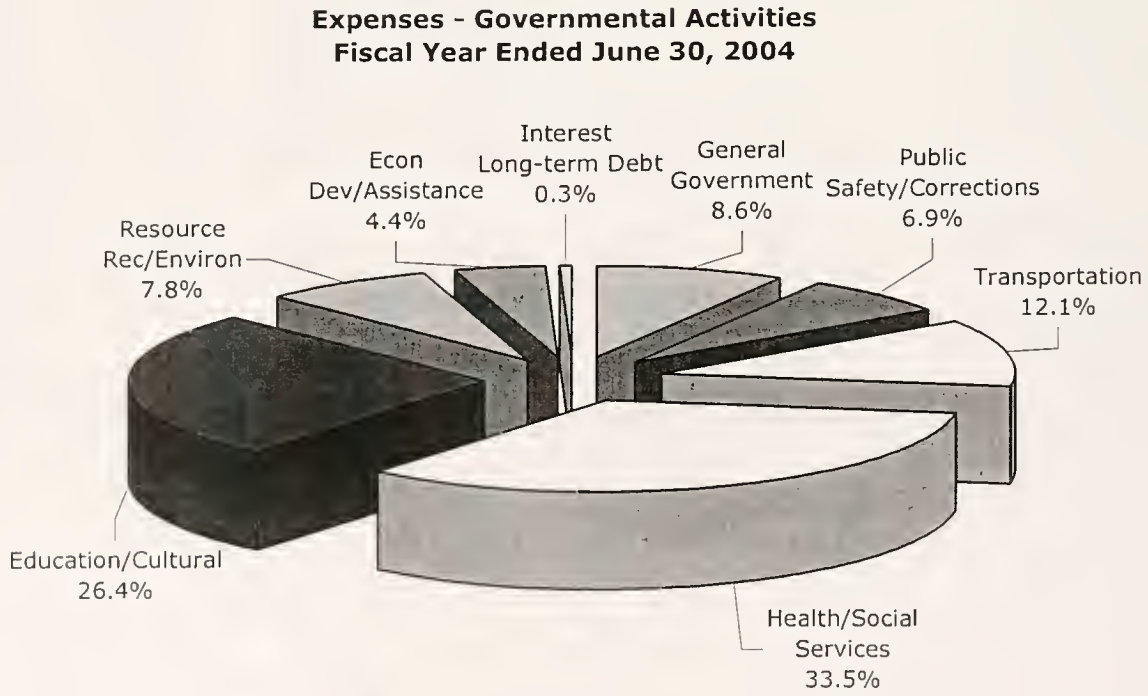
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2004	2003	2004	2003	2004
Revenues:						
Program revenues						
Charges for services	$ 415,033	$ 472,445	$206,233	$220,903	$ 621,266	$ 693,348
Operating grants	1,170,703	1,271,515	10,442	55,487	1,181,145	1,327,002
Capital grants	308,021	290,045	510	177	308,531	290,222
General revenues						
Taxes	1,260,398	1,436,571	13,650	14,621	1,274,048	1,451,192
Other	267,080	64,531	21,778	10,275	288,858	74,806
Total revenues	3,421,235	3,535,107	252,613	301,463	3,673,848	3,836,570
Expenses:						
General government	280,740	285,781	-	-	280,740	285,781
Public safety/corrections	194,885	227,786	-	-	194,885	227,786
Transportation	286,181	400,034	-	-	286,181	400,034
Health/social services	1,023,893	1,109,045	-	-	1,023,893	1,109,045
Educational/cultural	899,575	874,846	-	-	899,575	874,846
Resource/rec/environ	234,848	258,057	-	-	234,848	258,057
Econ dev/assistance	169,270	144,687	-	-	169,270	144,687
Interest on long-term debt	19,910	15,088	-	-	19,910	15,088
Unemployment Insurance	-	-	92,639	93,882	92,639	93,882
Liquor Stores	-	-	40,097	42,827	40,097	42,827
State Lottery	-	-	27,320	28,669	27,320	28,669
Economic Dev Bonds	-	-	2,426	2,197	2,426	2,197
Hail Insurance	-	-	2,029	1,949	2,029	1,949
Gen Govt Services	-	-	14,177	48,395	14,177	48,395
Prison Funds	-	-	4,515	4,244	4,515	4,244
MUS Group Insurance	-	-	35,906	39,690	35,906	39,690
MUS Workers Comp	-	-	-	2,552	-	2,552
Total expenses	3,109,302	3,315,324	219,109	264,405	3,328,411	3,579,729
Increase (decrease) in net assets before transfers	311,933	219,783	33,504	37,058	345,437	256,841
Transfers	32,366	30,812	(32,366)	(30,812)	-	-
Change in net assets	344,299	250,595	1,138	6,246	345,437	256,841
Net assets, beg of year (restated)	3,699,544	4,080,499	229,465	230,061	3,929,009	4,310,560
Net assets, end of year	$4,043,843	$4,331,094	$230,603	$236,307	$4,274,446	$4,567,401

Governmental Activities
The following chart depicts revenues of the governmental activities for the fiscal year:

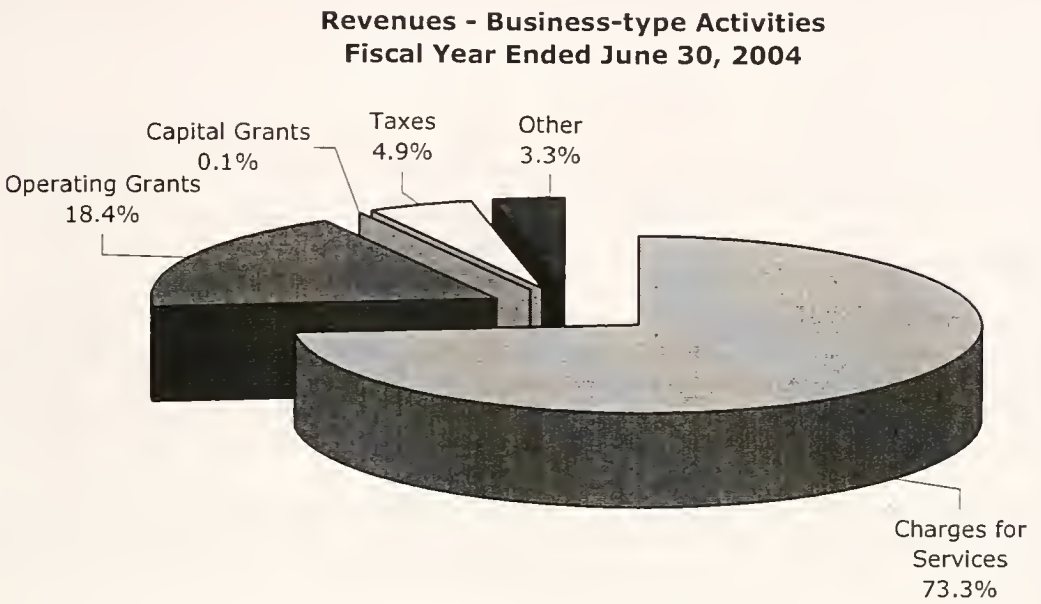


The following chart depicts expenses of the governmental activities for the fiscal year:

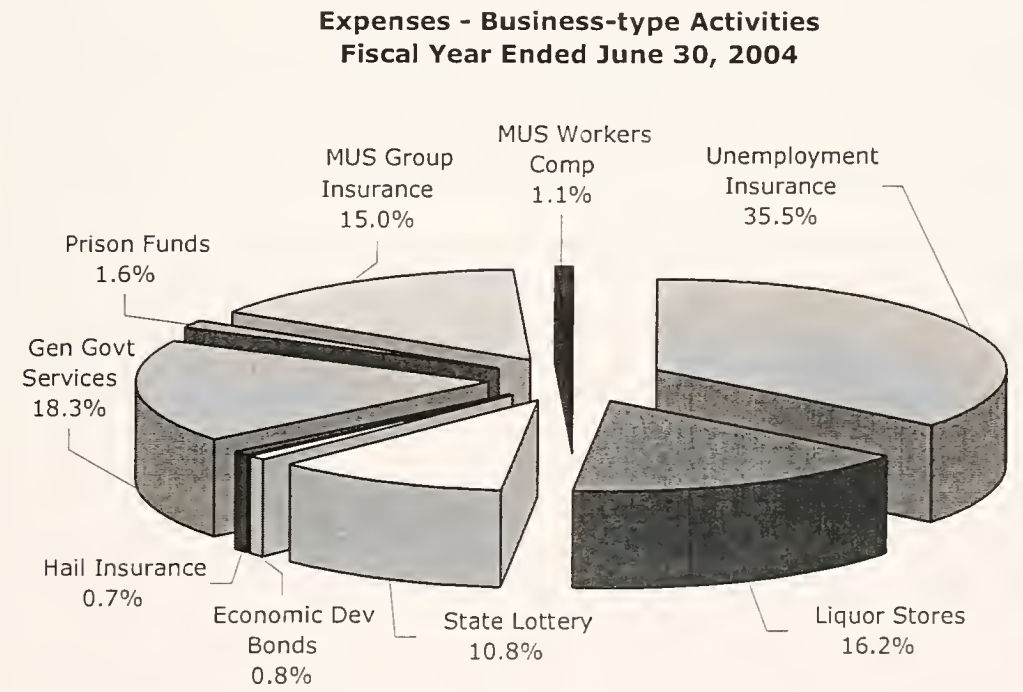


Business-type Activities

The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



As the State completed the year, its governmental funds reported fund balances of $2.3 billion. Of this total amount, $66.6 million (or 2.9%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending as it has already been dedicated for various commitments.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was $133 million. Unreserved fund balance increased during the fiscal year by $89.8 million, primarily because of lower corporation and property tax collections and interest rates.

General Fund Budgetary Highlights

Significant Under Spending Of Appropriation Authority - FMAP Rate "Enhancement" – Subsection 401(a) of TRRA provides temporary, with respect to certain expenditures by eligible states, increases in the federal medical assistance percentage (FMAP), which is the federal matching rate for states' medical assistance expenditures under their Medicaid program. Under this provision, the increased FMAP is available only for a period of five calendar quarters, the last two quarters of federal fiscal year 2003, and the first three quarters of federal fiscal year 2004.

The FMAP percentage for these five quarters increased by 3%. The result of this "windfall" was that the State's payment for this period was less than it would have been without this adjustment. The savings realized to the General Fund in fiscal year 2004 from the lower match rate for Montana is reflected in a lower base budget amount of Medicaid expenditures; the savings netted out to be approximately $14 million.

Supplemental Development – Two areas received supplementals to augment their fiscal year 2004 appropriations. The largest was the District Court reimbursement which overspent its appropriation by $1.9 million. The other area of over expenditure is K-12 base aid which spent $1 million more than original estimates.

Higher Revenues Than Anticipated – Almost all of the fiscal year 2004 ending fund balance is due to revenue exceeding expectations in fiscal year 2004 and fiscal year 2005. Total General Fund collections were forecast to increase by $57.9 million (4.6%) from fiscal year 2003 to fiscal year 2004. Twenty-five of the thirty-seven revenue sources ended the year above the forecast. Four revenue sources were more than $5 million higher than the forecast. They are individual income tax ($47.3 million higher), video gaming tax ($5.7 million higher), U.S. mineral royalties ($5.3 million higher), and oil and gas tax ($14.4 million higher). Income tax collections were higher than forecast because of strong wage and salary growth and federal tax law changes. Oil and gas tax and U.S. mineral royalties are higher than forecast because natural gas and oil prices are higher than expected. In total, fiscal year 2004 revenues exceeded the forecast by nearly $71 million, an 11% increase from fiscal year 2003.

General Governmental Functions

Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 3% from fiscal year 2003 to fiscal year 2004. Revenues from various sources for fiscal year 2004, and the amount and percentage of increases and decreases in relation to prior year revenues, are shown in the following table (amounts in thousands):

Revenue Source	Amount	2004 Percent of Total	Increase (Decrease) from 2003	Percent Increase (Decrease)
Licenses/permits	$ 240,612	6.8%	$ 30,001	14.2%
Taxes	1,416,392	40.3	166,211	13.3
Chg srv/fines/forfeits/settle	200,590	5.7	42,651	27.0
Investment earnings	49,363	1.4	(155,043)	(75.9)
Securities lending income	2,032	0.1	82	4.2
Sales doc/merch/property	18,022	0.5	4,918	37.5
Rentals/leases/royalties	31,687	0.9	3,363	11.9
Contributions/premiums	7,608	0.2	675	9.7
Grants/contracts/donations	22,868	0.7	(1,692)	(6.9)
Federal	1,480,812	42.1	26,647	1.8
Federal indir cost recvy	37,822	1.1	3,939	11.6
Other revenues	6,412	0.2	(17,632)	(73.3)
Total revenues	$3,514,220	100.0	104,120	

An explanation of significant changes by revenue source follows:

Licenses and Permits – This was primarily caused by State Special Revenue Fund increases of $6 million for Fish, Wildlife and Parks and $10.9 million for Public Health and Human Services, and General Fund increases of $10.6 million for Justice.

Taxes – The General Fund increase in revenues was primarily due to (1) a $70.7 million increase in individual income tax receipts, (2) a $23.6 million increase in corporation tax receipts, (3) a $6.3 million decrease in property tax receipts, (4) a $19 million increase in natural resource taxes, (5) a $5 million increase in video gaming taxes, (6) a $5.1 million increase in insurance premium taxes, and (7) a $26.6 million increase in cigarette/tobacco taxes.

Charges for Services/Fines/Forfeits/Settlements – The increase in this Federal Special Revenue Fund revenue source primarily related to a $39.4 million increase in fire suppression reimbursements.

Investment Earnings – The decrease in revenue across all major funds was due to the lower interest rates in fiscal year 2004 and a soft investment market.

Federal – This was primarily caused by an increase in Federal Special Revenue Fund Medicaid reimbursements for Health and Human Services.

Other Revenues – The decrease in revenue was primarily due to the expected decrease in the State Fund (Old) transfer to the General Fund as a result of the 2003 Legislature eliminating the 10% excess reserve requirement. This was a one-time transfer that occurred in fiscal year 2003, and with a very small residual impact on fiscal year 2004.

Total expenditures for all general governmental functions increased 5.2% from fiscal year 2003 to fiscal year 2004. Expenditures by function for fiscal year 2004, and the amount and percentage of increases or decreases in relation to the prior year amounts, are shown in the following table:

Expenditure Function	Amount *(in thousands)*	2004 Percent of Total	Increase (Decrease) from 2003	Percent Increase (Decrease)
General government	$ 252,486	7.2%	$ 12,779	5.3%
Public safety/corrections	208,593	6.0	19,291	10.2
Transportation	529,555	15.1	18,689	3.7
Health/social services	1,114,064	31.8	95,731	9.4
Education/cultural	898,988	25.7	4,397	0.5
Resource/recreation/environment	250,590	7.2	66,231	35.9
Economic development/assistance	144,381	4.1	(23,626)	(14.1)
Securities lending	1,784	0.1	50	2.9
Debt service	40,029	1.1	(17,139)	(30.0)
Capital outlay	60,310	1.7	(2,763)	(4.4)
Total expenditures	$3,500,780	100.0	$173,640	

An explanation of significant changes by expenditure function follows:

Public Safety/Corrections – Justice increased their General Fund program expenditures by $3.4 million as a result of the fiscal year 2003 one-year increase of funding from the State Special Revenue Fund. This was funded from the General Fund in fiscal year 2004.

Corrections increased their General Fund expenditures by $8.2 million.

Military Affairs increased General Fund expenditures primarily due to a one-year increase in funding from the State Special Revenue Fund in fiscal year 2003. The return to funding the State match for the Challenge program from the General Fund in fiscal year 2004 caused a $1.2 million increase in expenditures. Military Affairs also experienced a $2 million increase in Federal Special Revenue Fund expenditures primarily as a result of Federal Homeland Security grant expenditures.

Health/Social Services – Public Health and Human Services experienced an increase in the State and Federal Special Revenue Funds of $42.2 million and $71.3 million, respectively, primarily due to increased Medicaid matching requirements and payments to providers.

Resource/Recreation/Environment – The expenditure increase of $13.1 million and $69.1 million in the Natural Resource State and Federal Special Revenue Funds, respectively, was primarily related to 2003-2004 forest fire season expenditures.

Economic Development/Assistance– The expenditure decrease of $29.4 million in the Federal Special Revenue Fund was primarily caused by the movement of the Section 8 Housing program to the enterprise fund type.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to $4.1 billion, net of accumulated depreciation of $1.7 billion, leaving a net book value of $2.4 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 8% in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

Montana receives excellent bond ratings from both Moody's Investor Service (Aa3) and Standard and Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt increased from $227.6 million at June 30, 2003, to $219.6 million at June 30, 2004.

The ratio of general obligation debt to assessed property valuation and the amount of general obligation debt per capita are:

	Amount *(in thousands)*	Ratio Debt to Assessed Value (1)	State Debt Per Capita (2)
General obligation debt	$219,645	0.44%	$239.26

(1) Assessed value is based on tax year.
(2) Based on a 2003 estimated Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 4.3% in the second quarter of 2004, which is an increase from a rate of 4% during the second quarter of 2003. This compares favorably with the nation's average unemployment rate of 5.5% during the same time period.

The 58th Legislative Session adjourned on April 26, 2003, with a projected General Fund balance for the 2005 biennium of $46.2 million. During fiscal year 2004, economic conditions improved significantly with the General Fund balance, as of June 30, 2004, ending at the $141.8 million level. This improving economic outlook is projected to continue through the end of fiscal year 2005 with a projected ending General Fund balance of $209 million.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

STATEMENT OF NET ASSETS
JUNE 30, 2004
(expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 554,908	$ 228,381	$ 783,289	$ 182,704
Receivables (net)	247,490	33,025	280,515	68,513
Due from primary government	-	-	-	2,325
Due from other governments	153,711	222	153,933	23,016
Due from component units	1,692	1,440	3,132	764
Internal balances	(2,029)	2,029	-	-
Inventories	26,454	6,876	33,330	4,529
Advances to component units	8,957	4,872	13,829	-
Long-term loans/notes receivable	212,258	38,424	250,682	624,882
Equity in pooled investments (Note 3)	1,259,815	-	1,259,815	4,936
Investments (Note 3)	289,935	26,952	316,887	1,031,500
Securities lending collateral (Note 3)	192,909	521	193,430	154,859
Deferred charges	1,930	1,543	3,473	6,284
Restricted assets:				
Cash/cash equivalents (Note 3)	-	-	-	5,669
Investments (Note 3)	-	4,394	4,394	8,120
Capital assets (net) (Note 5)	2,409,128	8,925	2,418,053	493,175
Other assets	4,088	1,873	5,961	12,262
Total assets	5,361,246	359,477	5,720,723	2,623,538
LIABILITIES				
Accounts payable	353,892	6,825	360,717	45,507
Lottery prizes payable	-	2,812	2,812	-
Due to primary government	-	-	-	3,132
Due to other governments	3,102	292	3,394	10,947
Due to component units	2,324	1	2,325	764
Advances from primary government	-	-	-	13,829
Deferred revenue	40,318	3,497	43,815	24,503
Amounts held in custody for others	6,997	614	7,611	21,292
Securities lending liability (Note 3)	192,909	521	193,430	154,859
Other liabilities	11,127	-	11,127	5,654
Short-term debt (Note 11)	-	90,555	90,555	-
Long-term liabilities (Note 11):				
Due within one year	82,814	8,157	90,971	150,738
Due in more than one year	336,669	9,896	346,565	1,318,305
Total liabilities	1,030,152	123,170	1,153,322	1,749,530

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS				
Invested in capital assets, net of related debt	$ 2,250,177	$ 8,925	$ 2,259,102	$ 270,297
Restricted for:				
Transportation	47,894	-	47,894	-
Fish, wildlife, and parks	60,417	-	60,417	-
Federal grants	26,896	-	26,896	-
Debt service/construction	-	-	-	21,538
Unemployment compensation	-	191,032	191,032	-
Funds held as permanent investments:				
Nonexpendable	1,302,866	-	1,302,866	163,833
Expendable	44,433	-	44,433	-
Housing authority	-	-	-	131,478
Resource/environment	334,877	-	334,877	-
Other purposes	40,705	21,441	62,146	76,241
Unrestricted	222,829	14,909	237,738	210,621
Total net assets	$ 4,331,094	$ 236,307	$ 4,567,401	$ 874,008

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	$ 285,781	$ 57,384	$ 64,377	$ -	$ (164,020)
Public safety/corrections	227,786	159,397	42,047	-	(26,342)
Transportation	400,034	33,943	34,534	289,773	(41,784)
Health/social services	1,109,045	32,983	814,807	-	(261,255)
Education/cultural	874,846	28,922	152,437	272	(693,215)
Resource/recreation/environment	258,057	137,714	88,941	-	(31,402)
Economic development/assistance	144,687	22,102	74,372	-	(48,213)
Interest on long-term debt	15,088	-	-	-	(15,088)
Total governmental activities	3,315,324	472,445	1,271,515	290,045	(1,281,319)
Business-type activities:					
Unemployment Insurance	93,882	67,873	18,854	-	(7,155)
Liquor Stores	42,827	49,521	-	-	6,694
State Lottery	28,669	36,740	-	-	8,071
Economic Development Bonds	2,197	8	2,244	-	55
Hail Insurance	1,949	3,748	-	-	1,799
General Government Services	48,395	13,197	34,389	177	(632)
Prison Funds	4,244	5,140	-	-	896
MUS Group Insurance	39,690	42,252	-	-	2,562
MUS Workers Compensation	2,552	2,424	-	-	(128)
Total business-type activities	264,405	220,903	55,487	177	12,162
Total primary government	$ 3,579,729	$ 693,348	$ 1,327,002	$ 290,222	$ (1,269,157)
Component units:					
Authorities:					
Housing Authority	$ 40,995	$ 228	$ 42,791	$ -	$ 2,024
Facility Finance Authority	272	312	-	-	40
State Compensation Insurance (New Fund)	176,864	139,481	-	-	(37,383)
State Compensation Insurance (Old Fund)	14,055	-	-	-	(14,055)
State University System:					
Montana State University	354,743	137,352	132,922	8,141	(76,328)
University of Montana	279,937	121,494	92,757	4,414	(61,272)
Total component units	$ 866,866	$ 398,867	$ 268,470	$ 12,555	$ (186,974)

The notes to the financial statements are an integral part of this statement.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	$ (1,281,319)	$ 12,162	$ (1,269,157)	$ (186,974)
General revenues:				
Taxes:				
Property	164,505	-	164,505	-
Fuel	198,332	-	198,332	-
Natural resource	131,053	-	131,053	-
Individual income	619,043	-	619,043	-
Corporate income	69,685	-	69,685	-
Other	253,953	14,621	268,574	71
Settlements	25,181	-	25,181	-
Unrestricted investment earnings	32,734	319	33,053	34,070
Payment from State of Montana	-	-	-	158,331
Gain on sale of capital assets	204	-	204	126
Miscellaneous	6,412	9,956	16,368	-
Contributions to term and permanent endowments	-	-	-	11,026
Transfers	30,812	(30,812)	-	-
Total general revenues, contributions, and transfers	1,531,914	(5,916)	1,525,998	203,624
Change in net assets	250,595	6,246	256,841	16,650
Total net assets - July 1 - as previously reported	4,043,843	230,603	4,274,446	867,003
Prior period adjustments (Note 2)	36,656	(542)	36,114	(9,645)
Total net assets - July 1 - as restated	4,080,499	230,061	4,310,560	857,358
Total net assets - June 30	$ 4,331,094	$ 236,307	$ 4,567,401	$ 874,008

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004
(expressed in thousands)

		SPECIAL REVENUE		PERMANENT			
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
ASSETS							
Cash/cash equivalents (Note 3)	$ 126,209	$ 229,620	$ 59,667	$ 52,889	$ 23,261	$ 32,983	$ 524,629
Receivables (net) (Note 4)	150,467	64,857	9,436	7,856	5,977	5,259	243,852
Interfund loans receivable (Note 12)	44,336	41,621	244	-	-	-	86,201
Due from other governments	18	823	152,867	-	-	-	153,708
Due from other funds (Note 12)	18,645	24,157	1,438	1,854	276	1,241	47,611
Due from component units	539	801	77	74	-	57	1,548
Inventories	2,665	22,968	-	-	-	-	25,633
Equity in pooled investments (Note 3)	-	211,566	-	441,728	427,383	179,139	1,259,816
Long-term loans/notes receivable	47	178,825	352	-	-	33,034	212,258
Advances to other funds (Note 12)	100	11,583	100	52,469	-	3,002	67,254
Advances to component units	-	-	-	8,957	-	-	8,957
Investments (Note 3)	-	109,505	1,114	161,695	-	13,345	285,659
Securities lending collateral (Note 3)	-	44,621	-	60,959	58,979	27,332	191,891
Other assets	2,269	842	441	-	-	-	3,552
Total assets	$ 345,295	$ 941,789	$ 225,736	$ 788,481	$ 515,876	$ 295,392	$ 3,112,569
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	122,765	81,512	112,060	-	5,842	2,833	325,012
Interfund loans payable (Note 12)	-	19,801	63,880	42	-	630	84,353
Due to other governments	297	751	2,054	-	-	-	3,102
Due to other funds (Note 12)	8,839	7,584	3,861	7,107	13,593	3,153	44,137
Due to component units	15,325	597	1,164	-	466	49	17,601
Advances from other funds (Note 12)	-	61,328	893	-	-	10,805	73,026
Deferred revenue	52,061	29,068	10,025	-	-	-	91,154
Amounts held in custody for others	4,207	2,250	403	-	94	-	6,954
Securities lending liability (Note 3)	-	44,621	-	60,959	58,979	27,332	191,891
Other liabilities	25	118	-	-	-	-	143
Total liabilities	203,519	247,630	194,340	68,108	78,974	44,802	837,373
Fund balances:							
Reserved for:							
Encumbrances	5,017	15,866	14,158	-	-	339	35,380
Inventories	2,665	22,968	-	-	-	-	25,633
Long-term loans/notes receivable	47	178,825	352	-	-	33,034	212,258
Advances to other funds/component units	100	11,583	100	61,426	-	3,002	76,211
Special revenue (Note 14)	-	538,500	27,057	-	-	-	565,557
Debt service	-	-	-	-	-	6,521	6,521
Trust principal (Note 14)	-	-	-	658,947	436,902	190,030	1,285,879
Escheated property	1,074	37	-	-	-	-	1,111
Unreserved, designated, reported in nonmajor (Note 1):							
Debt service funds	-	-	-	-	-	9,253	9,253
Unreserved, undesignated	132,873	(73,620)	(10,271)	-	-	-	48,982
Unreserved, undesignated, reported in nonmajor:							
Debt service funds	-	-	-	-	-	(2,250)	(2,250)
Capital projects funds	-	-	-	-	-	10,661	10,661
Total fund balances	141,776	694,159	31,396	720,373	436,902	250,590	2,275,196
Total liabilities and fund balances	$ 345,295	$ 941,789	$ 225,736	$ 788,481	$ 515,876	$ 295,392	$ 3,112,569

The notes to the financial statements are an integral part of this statement.

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004
(expressed in thousands)

Total fund balances for governmental funds		$ 2,275,196
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		
Land	315,485	
Land improvements	11,852	
Buildings/improvements	325,966	
Equipment	70,300	
Infrastructure	2,947,719	
Other capital assets	73,416	
Construction in progress	176,171	
Intangible assets	18,735	
Less accumulated depreciation	(1,614,481)	
Total capital assets		2,325,163
Certain tax revenues are earned, but not available and therefore deferred in the funds.		51,804
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		70,881
Deferred issue costs are reported as current expenditures in the funds. These costs are amortized over the life of the bonds and included in govermental activities in the statement of net assets.		1,930
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest	(5,003)	
Lease/installment purchase payable	(2,180)	
Bonds/notes payable (net)	(305,100)	
Compensated absences payable	(70,319)	
Early retirement benefits payable	(216)	
Arbitrage rebate tax payable	(78)	
Other liabilities	(10,984)	
Total long-term liabilities		(393,880)
Net assets of governmental activities		$ 4,331,094

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

		SPECIAL REVENUE		PERMANENT			
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
REVENUES							
Licenses/permits	$ 130,807	$ 109,069	$ -	$ -	$ 365	$ 371	$ 240,612
Taxes:							
Natural resource	52,820	57,385	-	15,830	-	4,698	130,733
Individual income	602,262	234	-	-	-	-	602,496
Corporate income	67,412	-	-	-	-	-	67,412
Property	164,485	20	-	-	-	-	164,505
Fuel	-	198,318	-	-	-	14	198,332
Other (Note 1)	206,180	44,954	13	-	-	1,767	252,914
Charges for services/fines/forfeits/settlements	42,354	74,836	71,342	-	-	12,058	200,590
Investment earnings	7,119	7,909	247	17,666	6,633	9,789	49,363
Securities lending income	374	378	-	529	524	227	2,032
Sale of documents/merchandise/property	319	4,456	3	-	11,147	2,097	18,022
Rentals/leases/royalties	73	439	-	-	31,058	117	31,687
Contributions/premiums	-	7,608	-	-	-	-	7,608
Grants/contracts/donations	3,293	19,374	99	-	(7)	109	22,868
Federal	28,642	709	1,451,461	-	-	-	1,480,812
Federal indirect cost recoveries	156	34,280	3,386	-	-	-	37,822
Other revenues	2,104	4,216	77	-	-	15	6,412
Total revenues	1,308,400	564,185	1,526,628	34,025	49,720	31,262	3,514,220
EXPENDITURES							
Current:							
General government	168,545	72,342	6,647	-	-	4,952	252,486
Public safety/corrections	128,176	39,505	38,469	-	-	2,443	208,593
Transportation	170	239,612	289,773	-	-	-	529,555
Health/social services	250,570	54,077	809,417	-	-	-	1,114,064
Education/cultural	662,458	65,809	170,719	-	-	2	898,988
Resource/recreation/environment	20,066	101,367	125,800	-	2,900	457	250,590
Economic development/assistance	21,278	54,793	68,310	-	-	-	144,381
Debt service:							
Principal retirement	620	480	239	-	-	23,878	25,217
Interest/fiscal charges	1,158	703	21	-	-	12,930	14,812
Capital outlay	1,094	30,151	12,501	-	-	16,564	60,310
Securities lending	324	328	-	468	463	201	1,784
Total expenditures	1,254,459	659,167	1,521,896	468	3,363	61,427	3,500,780
Excess of revenue over (under) expenditures	53,941	(94,982)	4,732	33,557	46,357	(30,165)	13,440
OTHER FINANCING SOURCES (USES)							
Bonds issued	-	2,665	-	-	-	3,125	5,790
Refunding bonds issued	-	11,510	-	-	-	8,725	20,235
Bond premium	-	111	-	-	-	367	478
Payment to refunding bond escrow agent	-	(11,271)	-	-	-	(8,943)	(20,214)
Inception of lease/installment contract	648	127	522	-	-	-	1,297
General capital asset sale proceeds	76	194	-	-	-	-	270
Transfers in (Note 12)	66,401	125,763	4,317	3,405	-	39,752	239,638
Transfers out (Note 12)	(29,624)	(23,516)	(27,665)	(43,969)	(65,818)	(19,574)	(210,166)
Total other financing sources (uses)	37,501	105,583	(22,826)	(40,564)	(65,818)	23,452	37,328
Net change in fund balances	91,442	10,601	(18,094)	(7,007)	(19,461)	(6,713)	50,768
Fund balances - July 1 - as previously reported	51,121	687,063	51,500	727,380	456,363	257,304	2,230,731
Prior period adjustments (Note 2)	(833)	(5,622)	(2,010)	-	-	(1)	(8,466)
Fund balances - July 1 - as restated	50,288	681,441	49,490	727,380	456,363	257,303	2,222,265
Increase (decrease) in inventories	46	2,117	-	-	-	-	2,163
Fund balances - June 30	$ 141,776	$ 694,159	$ 31,396	$ 720,373	$ 436,902	$ 250,590	$ 2,275,196

The notes to the financial statements are an integral part of this statement.

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2004
(expressed in thousands)

Net change in fund balances - total governmental funds		$ 50,768
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)		
Capital outlay	260,182	
Depreciation expense	(113,796)	
Excess of capital outlay over depreciation expense		146,386
In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.		(5,757)
Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources.		364
Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed.		2,163
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		20,190
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds.The net revenue (expense) of the internal service funds is reported with governmental activities.		21,619
The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences is as follows:		
Bonds issued	(5,790)	
Refunding bonds issued	(20,235)	
Bond premium	(478)	
Payment to refunding bond escrow agent	20,214	
Capital lease financing	(1,297)	
Principal retirement	25,217	
Issuance costs deferral	640	
Bond issuance costs amortization	(156)	
Bond refunding loss amortization	(647)	
Bond discount amortization	(21)	
Bond premium amortization	187	
Total long-term debt proceeds/repayment		17,634

Some expenditures reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(17)	
Compensated absences	(3,788)	
Early retirement benefits	102	
Arbitrage rebate tax	68	
Other liabilities	863	
Total additional expenditures		(2,772)
Change in net assets of governmental activities		$ 250,595

The notes to the financial statements are an integral part of this statement.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 185,863	$ 7,535	$ 34,983	$ 228,381	$ 30,279
Receivables (net) (Note 4)	6,211	9,912	16,855	32,978	3,244
Interfund loans receivable (Note 12)	-	-	93	93	574
Due from other governments	-	-	222	222	3
Due from other funds (Note 12)	1	3,142	232	3,375	6,181
Due from component units	-	1,196	268	1,464	529
Inventories	-	-	6,876	6,876	821
Short-term investments	-	23,243	731	23,974	-
Securities lending collateral (Note 3)	-	-	521	521	1,016
Other current assets	-	-	256	256	534
Total current assets	192,075	45,028	61,037	298,140	43,181
Noncurrent assets:					
Restricted investments	-	4,394	-	4,394	-
Advances to other funds (Note 12)	-	9,182	255	9,437	-
Advances to component units	-	6,262	-	6,262	-
Long-term investments (Note 3)	-	237	2,741	2,978	4,277
Long-term notes/loans receivable	-	36,174	654	36,828	-
Deferred charges	-	1,506	37	1,543	-
Other long-term assets	-	-	1,617	1,617	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	1,387	1,387	95
Buildings/improvements	-	-	6,098	6,098	2,852
Equipment	-	12	9,865	9,877	175,608
Infrastructure	-	-	884	884	-
Construction in progress	-	-	255	255	2,898
Intangible assets	-	-	941	941	1,703
Less accumulated depreciation	-	(8)	(11,309)	(11,317)	(99,428)
Total capital assets	-	4	8,921	8,925	83,964
Total noncurrent assets	-	57,759	14,225	71,984	88,241
Total assets	192,075	102,787	75,262	370,124	131,422

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	$ 54	$ 627	$ 6,142	$ 6,823	$ 8,538
Lottery prizes payable	-	-	1,529	1,529	-
Interfund loans payable (Note 12)	1	-	295	296	2,219
Due to other governments	-	-	292	292	-
Due to other funds (Note 12)	657	6	9,690	10,353	2,653
Due to component units	-	-	1	1	50
Deferred revenue	-	18	3,479	3,497	968
Short-term debt (Note 11)	-	90,555	-	90,555	-
Lease/installment purchase payable (Note 10)	-	-	-	-	50
Bonds/notes payable - net (Note 11)	-	1,672	395	2,067	-
Amounts held in custody for others	331	99	184	614	45
Securities lending liability (Note 3)	-	-	521	521	1,016
Estimated insurance claims (Note 8)	-	-	5,341	5,341	14,063
Compensated absences payable (Note 11)	-	11	654	665	2,779
Arbitrage rebate tax payable	-	84	-	84	-
Total current liabilities	1,043	93,072	28,523	122,638	32,381
Long-term liabilities:					
Lottery prizes payable	-	-	1,283	1,283	-
Advances from other funds (Note 12)	-	-	-	-	3,461
Lease/installment purchase payable (Note 10)	-	-	-	-	102
Bonds/notes payable - net (Note 11)	-	4,615	1,260	5,875	-
Estimated insurance claims (Note 8)	-	-	3,402	3,402	22,690
Compensated absences payable (Note 11)	-	14	549	563	1,907
Arbitrage rebate tax payable	-	56	-	56	-
Total long-term liabilities	-	4,685	6,494	11,179	28,160
Total liabilities	1,043	97,757	35,017	133,817	60,541
NET ASSETS					
Invested in capital assets, net of related debt	-	4	8,921	8,925	83,812
Restricted for:					
Unemployment Compensation	191,032	-	-	191,032	-
Other Purposes	-	2,763	18,678	21,441	-
Unrestricted	-	2,263	12,646	14,909	(12,931)
Total net assets	$ 191,032	$ 5,030	$ 40,245	$ 236,307	$ 70,881

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	$ -	$ 8	$ 96,641	$ 96,649	$ 92,488
Investment earnings	11,339	83	314	11,736	221
Securities lending income	-	-	5	5	4
Financing income	-	2,161	-	2,161	-
Contributions/premiums	67,873	-	56,185	124,058	100,442
Grants/contracts/donations	7,515	-	34,389	41,904	-
Taxes	-	-	14,621	14,621	3
Other operating revenues	9,402	-	750	10,152	1,404
Total operating revenues	96,129	2,252	202,905	301,286	194,562
Operating expenses:					
Personal services	-	186	9,317	9,503	32,822
Contractual services	-	33	10,130	10,163	15,232
Supplies/materials	-	7	43,317	43,324	18,124
Benefits/claims	93,882	-	81,442	175,324	70,931
Depreciation	-	2	1,397	1,399	10,438
Amortization	-	-	286	286	476
Utilities/rent	-	39	721	760	10,192
Communications	-	6	1,103	1,109	8,760
Travel	-	4	152	156	391
Repair/maintenance	-	1	346	347	7,141
Lottery prize payments	-	-	18,680	18,680	-
Interest expense	-	1,852	88	1,940	263
Securities lending expense	-	-	4	4	3
Arbitrage rebate tax	-	40	-	40	-
Dividend expense	-	-	353	353	-
Other operating expenses	-	27	1,324	1,351	2,345
Total operating expenses	93,882	2,197	168,660	264,739	177,118
Operating income (loss)	2,247	55	34,245	36,547	17,444
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	-	-	(44)	(44)	(523)
Federal indirect cost recoveries	-	-	-	-	3,450
Increase (decrease) value of livestock	-	-	378	378	-
Total nonoperating revenues (expenses)	-	-	334	334	2,927
Income (loss) before contributions and transfers	2,247	55	34,579	36,881	20,371
Capital contributions	-	-	218	218	420
Transfers in (Note 12)	-	-	3,452	3,452	2,167
Transfers out (Note 12)	(4,297)	-	(30,008)	(34,305)	(1,339)
Change in net assets	(2,050)	55	8,241	6,246	21,619
Total net assets - July 1 - as previously reported	193,632	4,975	31,996	230,603	48,122
Prior period adjustments (Note 2)	(550)	-	8	(542)	1,140
Total net assets - July 1 - as restated	193,082	4,975	32,004	230,061	49,262
Total net assets - June 30	$ 191,032	$ 5,030	$ 40,245	$ 236,307	$ 70,881

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	$ 67,576	$ 8	$ 153,058	$ 220,642	$ 192,976
Payments to suppliers for goods and services	-	(117)	(90,621)	(90,738)	(62,070)
Payments to employees	-	(188)	(9,323)	(9,511)	(32,247)
Grant receipts	7,413	-	34,073	41,486	3,669
Cash payments for claims	(94,184)	-	(46,291)	(140,475)	(76,808)
Cash payments for prizes	-	-	(18,505)	(18,505)	-
Other operating revenues	7,511	-	534	8,045	1,499
Other operating payments	-	-	(353)	(353)	-
Net cash provided by (used for) operating activities	(11,684)	(297)	22,572	10,591	27,019
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	14,623	14,623	-
Transfers to other funds	(4,273)	-	(28,960)	(33,233)	(534)
Transfers from other funds	-	-	3,760	3,760	1,638
Proceeds from interfund loans/advances	1	-	476	477	4,753
Payments of interfund loans/advances	-	-	(250)	(250)	(6,881)
Payment of external loan	-	-	(506)	(506)	-
Collection of principal and interest on loans	-	-	37	37	-
Payment of principal and interest on bonds and notes	-	(4,987)	(443)	(5,430)	(2,573)
Proceeds from issuance of bonds and notes	-	18,601	2,050	20,651	3,701
Payment of bond issuance costs	-	(401)	(46)	(447)	-
Net cash provided by (used for) noncapital financing activities	(4,272)	13,213	(9,259)	(318)	104
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	-	-	(452)	(452)	(14,459)
Proceeds from sale of capital assets	-	-	1	1	1,076
Principal and interest payments on bonds and notes	-	-	(1,145)	(1,145)	(2,495)
Net cash used for capital and related financing activities	-	-	(1,596)	(1,596)	(15,878)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(28,132)	(2,520)	(30,652)	(2,946)
Proceeds from sales or maturities of investments	-	12,578	427	13,005	2,727
Proceeds from securities lending transactions	-	-	5	5	4
Interest and dividends on investments	11,339	373	364	12,076	436
Payment of securities lending costs	-	-	(4)	(4)	(3)
Collections of principal and interest on loans	-	29,032	-	29,032	-
Cash payment for loans	-	(29,924)	-	(29,924)	-
Arbitrage rebate tax	-	(71)	-	(71)	-
Net cash provided by (used for) investing activities	11,339	(16,144)	(1,728)	(6,533)	218
Net increase (decrease) in cash and cash equivalents	(4,617)	(3,228)	9,989	2,144	11,463
Cash and cash equivalents, July 1	190,480	10,763	24,994	226,237	18,816
Cash and cash equivalents, June 30	$ 185,863	$ 7,535	$ 34,983	$ 228,381	$ 30,279

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 2,247	$ 55	$ 34,243	$ 36,545	$ 17,443
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	-	2	1,397	1,399	10,438
Amortization	-	-	286	286	476
Taxes	-	-	(14,621)	(14,621)	-
Interest expense	-	1,852	88	1,940	263
Securities lending expense	-	-	4	4	3
Investment Earnings	(11,339)	(83)	(314)	(11,736)	(221)
Securities lending income	-	-	(5)	(5)	(4)
Financing income	-	(2,161)	-	(2,161)	-
Federal indirect cost recoveries	-	-	-	-	3,450
Arbitrage rebate tax	-	40	-	40	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	(1,463)	-	277	(1,186)	(57)
Decr (incr) in due from other funds	2	-	(14)	(12)	1,037
Decr (incr) in due from component units	-	-	356	356	(138)
Decr (incr) in due from other governments	-	-	(200)	(200)	-
Decr (incr) in inventories	-	-	(402)	(402)	2
Decr (incr) in other assets	-	-	443	443	(487)
Incr (decr) in accounts payable	(1,120)	4	(530)	(1,646)	565
Incr (decr) in lottery prizes payable	-	-	(227)	(227)	-
Incr (decr) in due to other funds	(11)	-	(44)	(55)	147
Incr (decr) in due to component units	-	-	(1)	(1)	(1)
Incr (decr) in due to other governments	-	-	(197)	(197)	-
Incr (decr) in deferred revenue	-	-	(520)	(520)	(477)
Incr (decr) in amounts held in custody for others	-	-	92	92	(39)
Incr (decr) in compensated absences payable	-	(6)	(176)	(182)	280
Incr (decr) in estimated claims	-	-	2,637	2,637	(5,660)
Net cash provided by (used for) operating activities	$ (11,684)	$ (297)	$ 22,572	$ 10,591	$ 27,020
Schedule of noncash transactions:					
Capital asset acquisitions from capital leases	$ -	$ -	$ -	$ -	$ 1,084
Capital contributions from other funds	-	-	41	41	420
Capital contributions to other funds	-	-	-	-	(429)
Amortization of bond issuance costs	-	-	9	9	-
Incr (decr) in fair value of investments	-	(235)	(38)	(273)	(209)
Total noncash transactions	$ -	$ (235)	$ 12	$ (223)	$ 866

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004
(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	$ 201,468	$ 2,179	$ 601,911	$ 118,489
Receivables (net):				
Accounts receivable	16,004	7	-	719
Interest	20,529	-	-	44,319
Due from primary government	15,329	-	-	-
Due from other PERB plans	379	-	-	-
Long-term loans/notes receivable	326	-	-	-
Advances to other PERB plans	86	-	-	-
Total receivables	52,653	7	-	45,038
Investments at fair value:				
Equity in pooled investments (Note 3)	5,611,716	-	-	-
Other investments (Note 3)	384,841	-	-	-
Total investments	5,996,557	-	-	-
Securities lending collateral (Note 3)	280,120	-	-	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	152	-	-	-
Accumulated depreciation	(259)	-	-	-
Intangible assets	1,511	-	-	-
Total capital assets	1,597	-	-	-
Other assets	8	5,857	-	11,672
Total assets	6,532,403	8,043	601,911	175,199
LIABILITIES				
Accounts payable	895	8	-	51,070
Due to primary government	411	-	-	-
Due to other PERB plans	379	-	-	-
Due to other funds (Note 12)	24	-	-	-
Advances from primary government	1,390	-	-	-
Advances from other PERB plans	86	-	-	-
Advances from other funds (Note 12)	204	-	-	-
Deferred revenue	57	-	-	-
Amounts held in custody for others	-	-	-	124,129
Securities lending liability (Note 3)	280,120	-	-	-
Compensated absences payable	396	-	-	-
Total liabilities	283,962	8	-	175,199
NET ASSETS				
Held in trust for pension benefits and other purposes	$ 6,248,441	$ 8,035	$ 601,911	$ -

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE-PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	$ 130,627	$ -	$ -
Employee	141,584	-	-
Other contributions	17,988	-	1,099,337
Net investment earnings:			
Investment earnings	738,301	14	6,442
Administrative investment expense	(7,855)	-	-
Securities lending income	2,960	-	-
Securities lending expense	(2,412)	-	-
Charges for services	394	-	-
Other additions	136	2,142	-
Total additions	1,021,723	2,156	1,105,779
DEDUCTIONS			
Benefits	335,206	-	-
Refunds	18,738	-	-
Distributions	-	2,039	1,168,439
Administrative expenses:			
Personal services	2,320	-	-
Contractual services	2,059	4	-
Supplies/materials	75	-	-
Depreciation	610	-	-
Amortization	157	-	-
Utilities/rent	234	-	-
Communications	189	-	-
Travel	52	-	-
Repair/maintenance	43	-	-
Grants	-	3	-
Interest expense	46	-	-
Other operating expenses	316	-	-
Local assistance	12	-	-
Loss on capital assets	890	-	-
Transfers to ORP	188	-	-
Transfers to PERS-DCRP	1,295	-	-
Total deductions	362,430	2,046	1,168,439
Change in net assets	659,293	110	(62,660)
Net assets - July 1 - as previously reported	5,587,231	4,919	664,571
Prior period adjustments (Note 2)	1,917	3,006	-
Net assets - July 1 - as restated	5,589,148	7,925	664,571
Net assets - June 30	$ 6,248,441	$ 8,035	$ 601,911

The notes to the financial statements are an integral part of this statement.

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2004
(expressed in thousands)

	AUTHORITIES			
	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	$ 7,264	$ 1,995	$ 20,685	$ 4,114
Receivables (net)	14,660	159	12,823	1,088
Due from primary government	1	-	1	-
Due from other governments	-	-	-	-
Due from component units	-	-	531	63
Inventories	-	-	-	-
Long-term loans/notes receivable	598,747	299	37	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	140,475	-	582,068	69,216
Securities lending collateral (Note 3)	-	-	141,060	13,249
Deferred charges	6,284	-	-	-
Restricted assets:				
Cash/cash equivalents (Note 3)	-	-	-	-
Investments (Note 3)	-	-	-	-
Capital assets (net) (Note 5)	76	-	2,349	-
Other assets	181	3	2,038	-
Total assets	767,688	2,456	761,592	87,730
LIABILITIES				
Accounts payable	3,339	12	8,157	614
Due to primary government	27	4	1,223	1
Due to other governments	-	-	-	-
Due to component units	5	-	63	531
Advances from primary government	-	-	-	-
Deferred revenue	-	-	5,977	-
Amounts held in custody for others	683	-	8,513	-
Securities lending liability (Note 3)	-	-	141,060	13,249
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	7,883	13	100,744	14,409
Due in more than one year	624,197	9	353,083	66,369
Total liabilities	636,134	38	618,820	95,173
NET ASSETS				
Invested in capital assets, net of related debt	76	-	2,349	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	131,478	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	2,418	140,423	(7,443)
Total net assets	$ 131,554	$ 2,418	$ 142,772	$ (7,443)

The notes to the financial statements are an integral part of this statement.

STATE UNIVERSITY SYSTEM

MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
$ 92,342	$ 56,304	$ 182,704
17,100	22,683	68,513
1,191	1,132	2,325
15,351	7,665	23,016
147	23	764
2,833	1,696	4,529
17,033	8,766	624,882
-	4,936	4,936
103,737	136,004	1,031,500
-	550	154,859
-	-	6,284
942	4,727	5,669
5,396	2,724	8,120
246,135	244,615	493,175
5,477	4,563	12,262
507,684	496,388	2,623,538
17,439	15,946	45,507
1,247	630	3,132
8,255	2,692	10,947
21	144	764
8,786	5,043	13,829
8,360	10,166	24,503
3,918	8,178	21,292
-	550	154,859
3,147	2,507	5,654
16,347	11,342	150,738
117,013	157,634	1,318,305
184,533	214,832	1,749,530
153,889	113,983	270,297
10,443	11,095	21,538
73,848	89,985	163,833
-	-	131,478
33,236	43,005	76,241
51,735	23,488	210,621
$ 323,151	$ 281,556	$ 874,008

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	AUTHORITIES			
	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
EXPENSES	$ 40,995	$ 272	$ 176,864	$ 14,055
PROGRAM REVENUES:				
Charges for services	228	312	139,481	-
Operating grants and contributions	42,791	-	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	43,019	312	139,481	-
Net (expenses) program revenues	2,024	40	(37,383)	(14,055)
GENERAL REVENUES:				
Taxes:				
Other	-	-	3	68
Unrestricted investment earnings	-	40	17,037	349
Payment from State of Montana	-	-	-	-
Gain on sale of capital assets	-	-	22	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	-	40	17,062	417
Change in net assets	2,024	80	(20,321)	(13,638)
Total net assets - July 1 - as previously reported	129,530	2,338	163,093	6,195
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	129,530	2,338	163,093	6,195
Total net assets - June 30	$ 131,554	$ 2,418	$ 142,772	$ (7,443)

The notes to the financial statements are an integral part of this statement.

STATE UNIVERSITY SYSTEM		
MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
$ 354,743	$ 279,937	$ 866,866
137,352	121,494	398,867
132,922	92,757	268,470
8,141	4,414	12,555
278,415	218,665	679,892
(76,328)	(61,272)	(186,974)
-	-	71
3,817	12,827	34,070
93,454	64,877	158,331
104	-	126
5,715	5,311	11,026
103,090	83,015	203,624
26,762	21,743	16,650
301,808	264,039	867,003
(5,419)	(4,226)	(9,645)
296,389	259,813	857,358
$ 323,151	$ 281,556	$ 874,008

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units
These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of these entities:

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1.5 million. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 204, Helena, MT 59620-0545.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

State Compensation Insurance Fund (New and Old) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the Legislature. The fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund and the State Special Revenue Fund.

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The system is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The system is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board, appointed by the Governor, administers ten separate retirement systems for the purpose of providing retirement, disability, death, and lump-sum payments to each system member. These legally separate plans include the Public Employees Defined Benefit Retirement Plan, Public Employees Defined Contribution Retirement Plan, the associated education funds, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) includes the Public Employees Defined Benefit Retirement Plan and the Public Employees Defined Contribution Retirement Plan, and is funded from employer and employee contributions, investment earnings and contributions from state, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the system. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member, state, and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member and investment earnings; there is one employer, Great Falls Transit, that contributes to the program.

The board is a discretely presented component unit responsible for the ten separate public employee retirement systems including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 N Park, PO Box 200131, Helena, MT 59620-0131.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are only reported on the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due. Significant intrafund transactions and balances have been eliminated.

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

Proprietary Funds

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

Trust and Agency Funds – To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs. These include: (1) pension (and other employee benefit) trust funds, (2) agency funds, (3) investment trust funds, and (4) private-purpose trust funds.

The State reports the following funds as major as defined under GASB 34:

Major Governmental Funds
The General Fund is the State's primary operating fund, as defined above.

The State Special Revenue Fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for all activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Proprietary Funds
The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. (See Note 3).

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Restricted Assets

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted assets on the balance sheet because their use is limited by applicable bond indenture agreements.

I. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

J. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, higher education units, and specific trusts established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the Balance Sheet within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of the primary government are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is $25,000. The capitalization threshold for infrastructure is $500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at $5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

L. Deferred Revenue

Deferred revenue in the government-wide, proprietary fund, and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds.

N. Capital Leases

A capital lease is generally defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability is recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and an other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2003, was 204.4 hours. For fiscal year 2004, 4,879.5 hours were contributed to the sick leave pool and 2,911.5 hours were withdrawn leaving a balance of 2,172.4 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

Q. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

R. Fund Balance

In the fund financial statements, reservations represent those portions of fund balance or net assets not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. The debt service funds designated fund balances represent management's desire to maintain fund balance in relation to bonds payable.

S. Property Taxes

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

T. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Video gaming	$ 50,733	$ -	$ -	$ 50,733
Insurance premium	52,257	-	-	52,257
Inheritance	10,265	-	-	10,265
University system millage	981	10,963	-	11,944
Cigarette/tobacco	39,619	3,877	1,767	45,263
Accommodations	9,684	13,941	-	23,625
Telephone license	20,789	-	-	20,798
Alcoholic beverage	4,356	1,648	-	6,004
Electrical energy	8,106	-	-	8,106
Public contractor	2,120	-	-	2,120
Livestock	-	3,572	-	3,572
Public Service Commission	-	2,836	-	2,836
Freight line	1,568	-	-	1,568
Fire protection	3,070	2,403	-	5,473
Agriculture sales	-	2,739	-	2,739
Consumer Counsel	-	1,314	-	1,314
Car rental	2,486	-	-	2,486
Light vehicle registration	-	1,429	-	1,429
Miscellaneous	146	232	-	378
Total other taxes	$206,180	$44,954	$1,767	$252,901

NOTE 2. OTHER ACCOUNTING ISSUES

A. Restatement of Beginning Fund Balances/Net Assets

For the year ended June 30, 2004, the State implemented Statement 39 of the Governmental Accounting Standards Board. As a result of implementing this statement, the State's university component units began reporting their significant fund-raising foundations. The prior year net assets of the fund-raising foundations have been reported as an increase to beginning net assets of the universities as follows: Montana State University, $96,878,000 and University of Montana, $126,817,000.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Net Assets, and related to various capital asset corrections.

C. Fund Reorganization

For reporting purposes, several small funds were combined as follows:

Internal Service Funds – FWP Warehouse Inventory, FWP Office Supply, Statewide Fueling Network, and Procurement Card Purchases were combined into the Other Internal Services fund.

Nonmajor Enterprise Funds – Montana Career Information System, Judiciary Law Library, Department of Agriculture, Advanced Drivers Education, and FWP Visitor Services were combined into the Other Enterprise Funds fund.

Nonmajor Permanent Funds – Jim Bradley Memorial, Thomas Teakle, Merritt-Wheeler Memorial, and Historical Society Acquisitions were combined into the Historical Society Trusts Fund.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	$1,895,710
Equity in pooled investments	$6,876,467
Investments	$1,745,742

Carrying amounts and fair values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account, there is the Short-term Investment Pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual funds investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their investment earnings within their funds are only allowed to invest in STIP. Local government participation in STIP is also voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. Category 1 consists of deposits that are insured or collateralized with securities held by the State or by its agent in the State's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 deposits are uncollateralized. The State's cash deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of risk assumed by the State at June 30, 2004.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments where the securities are held by the counter party's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities, in addition to other long-term investment securities, to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91-day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk

identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero-coupon bonds and preferred stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock), and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued and traded at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero-coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated investment grade at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

(3) Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the securities on loan and maintain collateral equal to not less than 100% of the fair value of the loaned security. During fiscal year 2004, the State's agent loaned, on behalf of the State, certain securities held by the agent and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 2004, the State had no credit risk exposure to borrowers.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main state bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 - Cash Deposits *(in thousands)*

Risk Category		Carrying Amount	Bank Balance	Fund
1	Insured (FDIC)	$ 1,510	$1,510	Various
	Collateral held by State/State's agent	5,814	5,814	Various
2		4,115	4,115	Various
3		8,875	8,875	Various
Uncategorized:				
	Undeposited cash	1,826		
	Cash in U.S. Treasury	185,932		
	Less: outstanding warrants	(52,449)		
	Cash in MSU component units	6,443		
	Cash in UM component units	3,294		
	Total cash deposits	$165,359		

As of June 30, 2004, the carrying amount of deposits for component units was $81,383,853, and the bank balance was $75,345,175. Of the carrying amount, $75,345,175 was fully insured or collateralized with securities held by the component units or their agents in the unit's name, and $6,488,678 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP) and the Treasurer's Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments or other agencies, as allowed by law.

Table 2 - Cash Equivalents *(in thousands)*

	Risk Category 1					
	Securities Not on Loan	On Loan for Securities Collateral	Not Categorized	Carrying Amount	Fair Value	Fund
Asset-backed securities	$940,831	$-	$-	$ 940,831	$ 940,844	Various
Government securities	182,257	-	-	182,257	181,052	Various
Repurchase agreements	71,848	-	-	71,848	71,848	Various
Variable-rate short term securities	504,982	-	-	504,982	504,931	Various
Direct investments:						
Money markets				30,433	30,433	Various
Total cash equivalents				$1,730,351	$1,729,108	
Securities lending collateral						
Investment pool			$-	$ -	$ -	

As of June 30, 2004, local governments invested $601,911,349 in STIP.

As of June 30, 2004, component units of the State of Montana had investments in cash equivalents with a book value and fair value of $375,787,462.

C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), and Montana Private Equity Pool (MPEP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to statutory restrictions for quality and size of holdings.

Table 3 - Equity In Pooled Investments *(in thousands)*

	Risk Category 1				
	Securities Not on Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
MDEP:					
Common Stock Pool	$1,616,462	$ -	$ 18,799	$1,635,261	$1,941,940
Equity Index Fund	544,162	-	-	544,162	596,835
DFA Small Cap Subtrust	260,000	-	-	260,000	323,104
SPIFF	39,638	-	-	39,638	40,405
TFBP:					
Corporate Asset-backed	61,013	-	-	61,013	60,172
Corporate Stocks	504,213	-	13,195	517,408	546,933
US Govt. Mortgage-backed	150,318	-	-	150,318	147,756
US Govt. Direct	225,257	2,532	144,491	372,280	385,438
Yankee Bonds	68,920	-	3,991	72,911	77,757
State and Local Government	9,893	-	-	9,893	9,894
RFBP:					
Corporate Asset-backed	57,411	-	-	57,411	57,044
Corporate Stocks	686,127	-	25,909	712,036	752,472
US Govt. Mortgage-backed	193,434	-	-	193,434	189,125
US Govt. Direct	293,921	-	168,298	462,219	488,067
Yankee Bonds	59,146	-	4,369	63,515	69,524
MTIP:					
BGI MSCI Europe Index	375,434	-	-	375,434	389,188
BOI Internal International	40,005	-	-	40,005	46,168
BGI Cash & Money Market	1	-	-	1	1
SPIFF	31,374	-	-	31,374	31,685
Schroder Capital Management	118,527	-	13,211	131,738	150,237
Pyford International	100,538	-	19,179	119,717	133,028
Nomura	87,496	-	717	88,213	103,631
MPEP:					
Private Equities	212,763	-	-	212,763	234,249
State Street SPIFF	23,948	-	-	23,948	24,230
Total pooled investments	5,760,001	2,532	412,159	6,174,692	6,798,883
Other pool assets (net)	-	-	-	77,584	77,584
Total equity in pooled investments	$5,760,001	$2,532	$412,159	$6,252,276	$6,876,467
Securities lending collateral Investment pool			$453,667	$ 453,667	$ 453,667

* At June 30, 2004, these underlying securities, with fair values of $2,965,830 and $441,171,420, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 2004, component units of the State of Montana had equity in pooled investments with a book value of $4,167,355,588 and a fair value of $5,616,651,956.

D. Investments

Long-term investments are primarily administered by three state agencies. Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the BOI. The BOI, as the State's primary administrator of long-term investments, actively manages 71.86% of those investments; the Board of Housing, 9.41%; and the Department of Administration's Public Employees Retirement Board, 16.19% for the State's Deferred Compensation Plan and Defined Contribution Retirement Plan. The Department of Natural Resources and Conservation, the Department of Public Health and Human Services, and the Commissioner of Higher Education, combined, manage 1.39% of total investments for bond-related activities. Additionally, the Montana University System manages 1.03% of total investments.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

Table 4 – Investments (Risk Categories) *(in thousands)*

	Risk Category 1					
	Securities Not on Loan	On Loan for Securities Collateral*	Risk Category 2	Not Categorized*	Carrying Amount	Fair Value
Primary government						
Corporate bonds	$ 1,137	$ -	$ -	$ 31,745	$ 32,882	$ 33,937
Corporate asset-backed	12,217	-	-	-	12,217	12,062
Government securities	101,364	$1,366	-	-	102,730	104,009
Government mortgage-backed	6,642	-	-	-	6,642	6,730
Total	$121,360	$1,366	$ -	$ 31,745	$ 154,471	$ 156,738
Component units/fiduciary funds						
Corporate bonds	$255,712	$ -	$ -	$ -	$ 255,712	$ 262,591
Corporate asset-backed	28,031	-	-	-	28,031	27,642
Government securities	95,179	-	-	185,935	281,114	285,227
Government mortgage-backed	51,047	-	-	-	51,047	51,798
Repurchase agreement	-	-	$82,655	-	82,655	82,655
Other investments	-	-	-	15,387	15,387	15,312
Total	429,969	-	82,655	201,322	713,946	725,225
Total	$551,329	$1,366	$82,655	$233,067	$ 868,417	$ 881,963
Direct investments:						
Primary government						
Commercial loans					$ 161,695	$ 161,695
Other					999	1,007
MUS Workers Compensation					1,842	1,842
Total					$ 164,536	$ 164,544
Component units/fiduciary funds						
Real estate					$ 16,093	$ 16,242
Mortgages					123,619	123,621
Other					77,348	81,846
Deferred compensation					223,280	224,376
Defined contribution					18,087	20,480
VEBA					122	122
Investments of MSU component units					107,102	107,102
Investments of UM component units					125,446	125,446
Total					691,097	699,235
Total investments					$1,724,050	$1,745,742
Securities lending collateral Investment pool				$226,700	$ 226,700	$ 226,700

* At June 30, 2004, the underlying securities, with fair values of $1,328,020 and $220,907,631, respectively, were loaned for securities and cash collateral under a securities lending agreement with the State's agent.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2004, follows (amounts in thousands):

A. Receivables

	Governmental Funds					
Receivables	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Other Governmental
Licenses and permits	$ 8,126	$ 330	$ -	$ -	$ -	$ -
Taxes	143,533	44,460	-	3,517	-	959
Charges for services/ fines/forfeitures	7,543	9,955	2,356	-	-	-
Investment income	1,696	5,850	-	4,339	5,977	3,932
Other	5,545	6,585	7,080	-	-	368
Total receivables	166,443	67,180	9,436	7,856	5,977	5,259
Less: allowance for doubtful accounts	(15,976)	(2,323)	-	-	-	-
Receivables, net	$150,467	$64,857	$ 9,436	$7,856	$5,977	$5,259

	Proprietary Funds			
Receivables	Unemployment Insurance	Economic Development Bonds	Other Enterprise	Internal Service
Charges for services	$1,992	$ -	$14,395	$ 165
Investment income	-	736	35	56
Contributions/premiums	4,441	-	2,398	2,823
Other	-	9,176	134	200
Total receivables	6,433	9,912	16,962	3,244
Less: allowance for doubtful accounts	(222)	-	(107)	-
Receivables, net	$6,211	$9,912	$16,855	$3,244

B. Payables

Payables	Governmental Funds: General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Other Governmental
Refunds	$ 80,388	$ -	$ -	$-	$ -	$ -
Tax distributions to other govt	-	23,727	-	-	-	-
Vendors/individuals	31,442	45,586	106,564	-	-	2,757
Payroll	10,587	11,042	4,553	-	-	64
Accrued interest	-	-	-	-	5,842	-
Other	348	1,157	943	-	-	12
Total	$122,765	$81,512	$112,060	$-	$5,842	$2,833

Payables	Proprietary Funds: Unemployment Insurance	Economic Development Bonds	Other Enterprise	Internal Service
Vendors/individuals	$54	$ 1	$5,709	$6,764
Payroll	-	13	429	1,753
Accrued interest	-	613	-	6
Other	-	-	4	15
Total	$54	$627	$6,142	$8,538

NOTE 5. CAPITAL ASSETS

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2004, are reflected in the following table; intrafund transfers of capital assets have not been eliminated (in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	$ 300,246	$ 22,755	$ (7,280)	$ 315,721
Construction work in progress	174,368	179,712	(175,011)	179,069
Capitalized collections	64,055	7,812	(1,846)	70,021
Total capital assets, not being depreciated	538,669	210,279	(184,137)	564,811
Capital assets, being depreciated				
Infrastructure	2,821,593	189,668	(63,542)	2,947,719
Land improvements	11,178	1,157	(388)	11,947
Buildings/improvements	323,582	26,267	(21,030)	328,819
Equipment	235,783	29,773	(19,648)	245,908
Other	3,323	1,224	(1,152)	3,395
Total capital assets, being depreciated	3,395,459	248,089	(105,760)	3,537,788
Less: accumulated depreciation for:				
Infrastructure	(1,447,182)	(1,374,944)	1,411,285	(1,410,841)
Land improvements	(1,170)	(824)	532	(1,462)
Buildings/improvements	(145,103)	(10,425)	5,879	(149,649)
Equipment	(140,655)	(22,173)	13,852	(148,976)
Other	(2,527)	(1,752)	1,299	(2,980)
Total accumulated depreciation	(1,736,637)	(1,410,118)	1,432,847	(1,713,908)
Total capital assets, being depreciated, net	1,658,822	(1,162,029)	1,327,087	1,823,880
Intangible assets	27,836	8,312	(15,711)	20,437
Governmental activity capital assets, net	$2,225,327	$ (943,438)	$1,127,239	$2,409,128

Primary Government *(continued)*

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	$ 800	$ -	$ -	$ 800
Construction work in progress	71	246	(63)	254
Total capital assets, not being depreciated	871	246	(63)	1,054
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	1,381	6	-	1,387
Buildings/improvements	6,098	-	-	6,098
Equipment	9,881	846	(851)	9,876
Other	-	-	-	-
Total capital assets, being depreciated	18,244	852	(851)	18,245
Less: accumulated depreciation for:				
Infrastructure	(459)	(92)	63	(488)
Land improvements	(1,092)	(9)	-	(1,101)
Buildings/improvements	(3,336)	(275)	87	(3,524)
Equipment	(5,221)	(1,831)	850	(6,202)
Other	-	-	-	-
Total accumulated depreciation	(10,108)	(2,207)	1,000	(11,315)
Total capital assets, being depreciated, net	8,136	(1,355)	149	6,930
Intangible assets	1,188	39	(286)	941
Business-type activity capital assets, net	$10,195	$(1,070)	$ (200)	$ 8,925

Depreciation expense was charged to governmental functions as follows (in thousands):

	Amount
General government	$ 1,562
Public safety/corrections	6,085
Transportation (including depreciation of the highway system maintained by the State)	97,490
Health/social services	3,088
Education/cultural	587
Resource/recreation/environment (including depreciation of the State's dams).	4,118
Economic development/assistance	866
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	10,438
Total depreciation expense – governmental activities	$124,234

Depreciation expense was charged to business-type activities as follows (in thousands):

	Amount
Liquor Stores	$ 102
State Lottery	900
Economic Development Bonds	2
General Government Services	77
Prison Funds	318
Total depreciation expense – business-type activities	$1,399

B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

Discretely Presented Component Units

	Montana State University (MSU)	University of Montana (UM)	Other	Total
Capital assets, not being depreciated				
Land	$ 4,240	$ 7,001	$ -	$ 11,241
Construction work in progress	5,787	24,094	-	29,881
Capitalized collections	7,780	14,793	-	22,573
Livestock for educational purposes	2,758	-	-	2,758
Total capital assets, not being depreciated	20,565	45,888	-	66,453
Capital assets, being depreciated				
Infrastructure	32,128	-	-	32,128
Land improvements	13,129	9,368	-	22,497
Buildings/improvements	289,417	310,780	-	600,197
Equipment	86,526	47,273	3,226	137,025
Other	55,701	46,547	-	102,248
Total capital assets, being depreciated	476,901	413,968	3,226	894,095
Less: accumulated depreciation	(259,555)	(221,715)	(1,987)	(483,257)
Total capital assets, being depreciated, net	217,346	192,253	1,239	410,838
Intangible assets	1,406	809	1,186	3,401
Capital assets (net) of MSU component units	6,817	-	-	6,817
Capital assets (net) of UM component units	-	5,666	-	5,666
Discretely presented component units Total capital assets, net	$246,134	$244,616	$2,425	$493,175

NOTE 6. RETIREMENT SYSTEMS

Defined Contribution Plans

ORP – Optional Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP, participate in the Teachers Retirement System or the Public Employees Retirement System, benefit plans discussed in the next section. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Required employee contributions were 7.027% of salary; required employer contributions were 4.91% of salary, for a total of 11.9% of salary contributed to the ORP.

	TIAA-CREF *(in thousands)*
Covered payroll	$ 133,141
Total payroll	290,673
Employer contributions	$ 6,535
Percent of covered payroll	4.91%
Employee contributions	$ 9,355
Percent of covered payroll	7.03%

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to join the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program.

Participant rights are fully vested in their accounts at the time of deposit in regard to participant contributions and interest. Employer contributions and interest are vested after 5 years of service.

The PERS-DCRP has received a long-term loan through the Montana Department of Administration, with the BOI to fund the plan start-up/implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. Five loan draws were taken in the total amount of $1,498,000. Interest repayments began immediately following the draws. Principal repayments began August 15, 2003, the year following the PERS-DCRP implementation date. The loan was renegotiated as a single sum in fiscal year 2004, to be repaid over a period of 15 years. The interest rate is variable and changes every February, impacting the interest due on the outstanding principal balance.

An inter-entity loan in the amount of $114,000 was made to the PERS-DCRP from the defined benefit education fund on August 18, 2003, to help cover the costs of the DCRP expenses. The term of this loan is for two years, and the interest rate to be repaid to the defined benefit education fund is the same as STIP. The first repayment of $28,500 plus interest was made in June 2004, in advance of the actual due date. The remaining principal balance of the inter-entity loan is $85,500 and is due in August 2005.

For information on the repayment schedules on these loans, please see the separately issued PERS-DCRP financial statements.

Deferred Compensation Plan

457 – Deferred Compensation Plan – The 457 plan was established in 1976 and is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2004, the net assets of the plan were $224,748,963.

The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed and must meet IRS-specified criteria. Participant rights are fully vested in their accounts at the time of deposit.

Defined Benefit Plans

A. General

The Public Employees Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans - Public Employees Retirement System (PERS-DBRP), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), Sheriffs Retirement System (SRS), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The board prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWPORS, SRS, MPORS, FURS, VFCA, as well as the two defined contribution plans, PERS-DCRP and 457 plan.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education fund.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The system prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS.

A summary of government employers participating in PERB, SRS, MPORS, HPORS, FURS, GWPORS, JRS, 457, and TRS by employer type at June 30, 2004, follows:

	Retirement System/Plan									
	PERS-DBRP	PERS-DCRP	SRS	MPORS	HPORS	FURS	GWPORS	JRS	457	TRS
Employers										
State agencies	35	28	1		1	1	5	1	35	8
Counties	55	44	55							
Cities/towns	94	37		22		14				
Colleges/universities	5	5					3		6	5
School districts	242	88								372
Other	95	27							2	
Total	526	229	56	22	1	15	8	1	43	385

B. Plan Descriptions

The State contributes to and/or administers ten plans in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing, multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing, multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the systems are included in the plan descriptions below. In addition, the 1999 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS-DBRP, MPORS, GWPORS, SRS, JRS, HPORS, and FURS that will provide a maximum benefit increase of 3% each January, inclusive of all other adjustments to the member's benefit, if the recipient has been receiving a retirement benefit for at least 12 months.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-cost method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

(1) State as the Single Employer

HPORS – Highway Patrol Officers Retirement System – This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Rights are vested after five years of service. Member contributions are 9% of total salaries of active highway patrol officers hired prior to July 1, 1997 and not electing GABA coverage; and 9.05% for members hired after June 30, 1997, and members electing GABA coverage. The employer contribution rate is 36.33% of active officer's salaries. The first 26.15% is payable from the same source used to pay members' compensation. The remaining amount, equal to 10.18%, is payable from a portion of the fees collected from drivers' license and duplicate drivers' license applications. For members, there is no minimum age, but minimum service is 20 years for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the highest average compensation. Post-retirement benefits, for non-GABA members, are in the form of minimum benefit supplements which insure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit paid nor 60% of the current base salary of a probationary officer. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, may be eligible for an annual lump-sum payment distributed in September. This lump-sum payment is funded by a registration fee of 25 cents per vehicle registration. The average payment in September 2004 was $2,310. This enhancement is limited to non-GABA members.

JRS – Judges Retirement System – This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all Montana judges of district court, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salaries while the State contributes 25.81% of active judges' salaries. Rights are vested after five years of membership service. Benefit eligibility is age 60 with at least 5 years of service, or any age with 5 years of service actuarially reduced with

involuntary terminations. The monthly retirement benefit formula is 3 1/3% per year of the member's highest average compensation for the first 15 years of credited service, plus 1.785% per year for each year of credited service after 15 years. For non-GABA members, the percentages are based on the member's current salary, instead of the highest average compensation.

(2) State as an Employer Contributor to Cost-Sharing, Multiple-Employer Systems

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public system. Member contributions are 6.9% of covered compensation. Each state agency and university system employer contributed 6.9% of PERS-covered payroll. Participating local governments and school district employers contributed 6.8% of PERS-covered payroll. The State contributed 0.1% for local governments and school district employers from the State General Fund. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 years of service, regardless of age. Actuarially reduced benefits may be taken with 25 years of service, or at age 50 with at least five years of service. Monthly retirement benefits vary based on years of service: the benefit is determined by taking 1.785% (for employees with less than 25 years of service), or 2% (for employees with at least 25 years of service) times the number of years of service times the highest average compensation times any early retirement reduction, if necessary. Members' rights are vested after five years of membership service.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 1.19% of payroll would be required to fund the current and projected benefits from the retirement system in accordance with GASB standards and state law.

TRS – Teachers Retirement System – This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.15% and 7.47%, respectively, of earned compensation. Benefit eligibility is age 60 with at least 5 years of creditable service, or at any age with at least 25 years of creditable service. The formula for annual benefits is 1.6667% times creditable service years times the average final compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Effective January 1, 1988, university system employees eligible to participate in the Teachers Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. A supplemental employer contribution to TRS is required to be amortized by July 1, 2033, for the amount that would not be paid for by contributions of university system members. The fiscal year 2004 contribution percentage of the total compensation of employees participating in the ORP program was 4.04% and the contribution was $4.7 million.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement systems be funded on actuarially sound basis. The system's actuary has determined that as of July 1, 2004, the current employer contribution rate of 7.47% plus the General Fund contribution of 0.11% of members' salaries are insufficient to meet the actuarial cost of the system and to amortize the unfunded actuarial liability over an open period of 30 years. The unfunded actuarial accrued liability of $873.5 million is included in the Schedules of Funding Progress. Based on the results of the July 1, 2004 valuation, the TRS Board will recommend options to the Legislature that are considered necessary to remain actuarially sound.

In addition, because actuarial gains and losses are smoothed over five years, only one-fifth of each previous year's actuarial loss has been recognized in the amortization period as of July 1, 2004, leaving almost $131 million in unrecognized investment losses, which must be recognized over the next three to four years. Therefore, to remain actuarially sound for future years, the retirement system will need to incur future gains that would result from a significant recovery in the investment market, a reduction in liabilities, additional increases in contribution rates, or any combination thereof.

SRS – Sheriffs Retirement System – This system, established in 1974 and governed by Title 19, chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993 and all Montana sheriffs. The member contribution is 9.245% of salary; the employer contribution is 9.535% of SRS-covered payroll. Benefit eligibility is age 50 with at least 5 years of service, actuarially reduced, or 20 years of service regardless of age. The service retirement

benefit is calculated at 2.5% of the highest average compensation for each year of membership service. Reduced benefits for early retirement may be taken with a minimum of five years of service and a minimum age of 50. Rights are vested after five years of membership service.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 2.15% of payroll would be required to fund the current and projected benefits from the retirement system in accordance with GASB standards and state law.

GWPORS – Game Wardens & Peace Officers Retirement System – This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS and MPORS systems. The member contributes 10.56% of salary while the State contributes 9.0% of covered active employee salaries. Benefit eligibility is age 50 with at least 20 years of service, or age 55 with at least 5 years of service. The yearly retirement benefit formula is 2.5% times the number of years of service times the highest average compensation. Rights are vested after five years of membership service.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 0.23% of payroll would be required to fund the current and projected benefits from the retirement system in accordance with GASB standards and state law.

(3) State as a Nonemployer Contributor to Cost-Sharing, Multiple-Employer Systems

MPORS – Municipal Police Officers Retirement System – The system, established in 1974 and governed by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. It is a cost-sharing defined benefit plan with a special funding situation. The member contribution is 5.8% of salary for members employed prior to July 1, 1975; 7% of salary for members employed after June 30, 1975, and prior to July 1, 1979; 8.5% of salary for members employed after June 30, 1979, and prior to July 1, 1997; and 9% for members hired on or after July 1, 1997, and members electing GABA. Employer contributions are 14.41% of MPORS-covered payroll. The State contributes 29.37% of compensation paid to members. The State's contribution is funded from the General Fund. Rights are vested after five years of membership service. Benefit eligibility is age 50 with at least 20 years of service, or age 55 with at least 5 years of service. The service retirement benefit is 2.5% times the number of years of service times the final average compensation. For non-GABA members, a minimum benefit adjustment is required to insure that the retired members benefit is not less than one-half of the compensation paid to newly confirmed police officers in the city that last employed the member.

Beginning July 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the Board. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of five years and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends they will again accrue membership service and service credit and the DROP account cannot be distributed until employment is formally terminated.

FURS – Firefighters Unified Retirement System – This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second-class cities and other cities that wish to adopt the plan and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. It is a cost-sharing defined benefit plan with a special funding situation.

The member contribution is 9.5% of compensation for members hired prior to July 1, 1997; and 10.7% for members hired after June 30, 1997, and for members electing GABA coverage. City contributions are 14.36% of total annual compensation. The state contribution is 32.61% of total annual compensation for all firefighters and is paid out of the General Fund. Benefit eligibility is 20 years regardless of age, or age 50 with at least 5 years of service. For members not electing GABA and hired prior to July 1, 1981, monthly retirement benefit is 50% of final average compensation, plus 2% per year for each year in excess of 20 years, or 2.5% of final average compensation per year. Members hired before July 1, 1981, with less than 20 years, receive a retirement benefit of 2% per year of service. Members electing GABA and hired after July 1, 1981, receive 2.5% of final average compensation. Post-retirement benefits, for non-GABA members, require that each retiree receive at least 50% of the salary paid a newly confirmed firefighter in the city where last employed. Rights are vested after five years of membership service.

(4) State as a Nonemployer Contributor

VFCA – Volunteer Firefighters Compensation Act – This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. VFCA also provides limited medical expenses for injuries incurred in the line of duty. VFCA is a plan with a special funding situation. The state contribution is 5% of fire insurance premium taxes collected. Rights are vested after ten years of qualified service. Benefit eligibility is age 55 with at least 20 years of service (full benefit available), or age 60 with at least 10 years of service (partial benefit available).

The 2003 Legislature amended the law so that members of the VFCA can accumulate more than 20 years of service beginning when they are age 55, if they already have 20 years of service (effective 7/1/2003).

C. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement systems have no investments of any commercial or industrial organization whose fair value equals 5% or more of the retirement systems net assets available for benefits.

E. Long-term Contracts for Contributions

The Montana Legislature also provided a new provision of the Employee Protection Act (EPA) (Section 19-2-706, MCA) allowing state and university system employees, eligible for a service retirement, whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1 for 5" additional service. As of June 30, 2004, 311 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2003 totaled $423,969. June 30, 2004, outstanding balances were $215,459.

F. Actuarial Data

Actuarial valuations are performed every two years. Milliman prepared the July 2004 actuarial reports for PERS and TRS. Mellon was the auditing actuary for all retirement system actuarial reports prepared by Milliman & Robertson. Milliman & Robertson prepared the July 2002 actuarial reports for the retirement systems, including TRS. Milliman & Robertson of Seattle, WA, performed the actuarial valuation for TRS for July 1, 2000. Milliman & Robertson, of Portland, OR, prepared the July 1, 2000 actuarial reports for the retirement systems, excluding TRS. Further disclosure can be found in Note 18.

G. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

Single Employer Systems

	HPORS	JRS
Annual pension cost	$3,198	$1,136
Contributions		
Employer	$2,859	$1,136
Employee	743	443
License and registration fees	348	
Actuarial valuation date	7/01/04	7/01/04
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	19.1 years	30 years
Asset valuation method	4 year smoothed market	4 year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.25%	4.25%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

Single Employer Systems

Year Ended	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Obligation
HPORS			
06/30/02	3,047	101.3%	NONE
06/30/03	3,191	100.9%	NONE
06/30/04	3,198	100.3%	NONE
JRS			
06/30/02	1,032	100.0%	NONE
06/30/03	1,052	100.0%	NONE
06/30/04	1,137	100.0%	NONE

Multiple Employer Systems

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed
PERS		
06/30/02	55,369	100.5%
06/30/03	58,114	99.1%
06/30/04	57,036	101.0%
MPORS		
06/30/02	9,732	101.1%
06/30/03	10,196	101.0%
06/30/04	10,740	101.4%
FURS		
06/30/02	8,432	98.1%
06/30/03	8,740	100.8%
06/30/04	9,409	100.0%
SRS		
06/30/02	2,338	102.1%
06/30/03	2,435	101.7%
06/30/04	2,610	103.6%
GWPORS		
06/30/02	1,544	103.3%
06/30/03	1,803	101.8%
06/30/04	1,930	104.7%
TRS		
06/30/02	51,519	100.0%
06/30/03	53,277	100.0%
06/30/04	55,774	100.0%

H. Schedules of Funding Progress

Single Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/00	77,810	76,397	(1,413)	101.85%	6,952	(20.33)%
07/01/02	81,734	94,850	13,116	86.17%	7,536	174.04%
07/01/04	79,104	104,069	24,965	76.01%	7,844	318.27%
JRS						
07/01/00	42,043	27,365	(14,678)	153.64%	3,483	(421.42)%
07/01/02	44,963	30,882	(14,081)	145.60%	4,000	(352.03)%
07/01/04	45,134	34,724	(10,410)	129.98%	4,403	(236.43)%

Multiple Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS						
07/01/00	2,843,347	2,273,407	(569,940)	125.07%	725,692	(78.54)%
07/01/02	3,076,781	3,077,764	983	99.97%	808,747	0.12%
07/01/04	3,047,287	3,514,085	466,798	86.72%	832,847	56.05%
MPORS						
07/01/00	129,826	181,109	51,283	71.68%	20,252	253.22%
07/01/02	143,516	226,827	83,311	63.27%	22,229	374.79%
07/01/04	149,510	260,094	110,584	57.48%	24,531	450.79%
FURS						
07/01/00	123,492	162,329	38,837	76.08%	16,547	235.00%
07/01/02	136,392	197,946	61,554	68.90%	17,953	342.86%
07/01/04	142,109	227,599	85,490	62.44%	20,248	422.21%
SRS						
07/01/00	126,338	87,836	(38,502)	143.83%	21,559	(178.59)%
07/01/02	138,590	121,625	(16,965)	113.95%	24,521	(69.19)%
07/01/04	141,022	148,608	7,586	94.90%	27,373	27.71%
GWPORS						
07/01/00	32,966	23,922	(9,044)	137.81%	11,875	(76.00)%
07/01/02	38,730	39,109	379	99.03%	17,151	2.21%
07/01/04	45,210	50,310	5,100	89.86%	21,442	23.79%
TRS						
07/01/00	2,247,500	2,648,300	400,800	84.9%	537,500	74.6%
07/01/02	2,484,800	2,980,100	495,300	83.4%	563,200	87.9%
07/01/04	2,485,700	3,359,200	873,500	74.0%	600,700	145.4%

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/00	17,769	16,752	(1,017)	106.07%	N/A	N/A
07/01/02	19,254	26,808	7,554	71.82%	N/A	N/A
07/01/04	20,058	28,680	8,622	69.94%	N/A	N/A

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2004, 70 certificate holders were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established retiree medical premiums vary between $189 and $560 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $28.60 and $46.60, and vision premiums vary between $7.85 and $20.40 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2004, 3,259 retirees were covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. Vision services are provided at prices ranging from a $10 copay to a $120 allowance depending on the services obtained and the network status of the provider. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of $17,467,897 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to $13,816,553 leaving $3,651,344 of claims paid in excess of premium revenue received by the State.

In accordance with section 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least 5 years. Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between $216 and $566 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual $575 deductible for non-Medicare-eligible retirees, the MUS plan reimburses 65% to 80% of the first $10,000 in medical claims and 100% thereafter. After a $400 deductible for Medicare-eligible retirees, the plan reimburses 65% to 80% for the first $5,000 in medical claims and 100% thereafter. There is an optional $1500 deductible plan available to retirees with a reduced premium. This plan has a small enrollment (54 enrollees). After the $1500 annual deductible, the plan pays 65 to 80% of the first $8,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2004, 1,392 retirees were enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2004, estimated expenditures of $5,651,448 were recognized for postemployment health care benefits. Of this amount, $5,566,107 was paid by retirees through premiums, and the balance of $85,341 was paid by the MUS.

NOTE 8. RISK MANAGEMENT

There are four primary government public entity risk pools that are reported within the enterprise fund type and two component unit public entity risk pools. Primary government pools include Hail Insurance, Subsequent Injury, the Montana University System (MUS) Group Benefits Plan, and the Montana University System Workers Compensation funds; component unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,026 policies during the 2004 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of $94,570 based on estimated claims through June 30, 2004. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury – This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period. In Montana, there are 3,389 individuals with certified disabilities.

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2004, the amount of this liability was estimated to be $2,363,565.

(3) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, and vision insurance. Blue Cross/Blue Shield of Montana is the claims administrator for the self-insured indemnity plan and an HMO plan. New West Health Services and Peak administers claims for the two other self-insured plans. Managed Care Montana (APS) has a contract for utilization management: the utilization management program consists of hospital pre-authorization, case management, and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Mellon Consultants and estimated to be $4,662,553 as of June 30, 2004, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(4) Montana University System (MUS) Workers Compensation Program – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers compensation coverage under Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers compensation coverage through the State Compensation Insurance Fund. The program is self-insured for workers compensation claims to a maximum of $500,000 per each occurrence. Losses in excess of $500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $500,000. During 2004, the program ceded $151,286 in premiums to reinsurers.

Premium rates for all participating employees are based on rates established by the MUS Workers Compensation Program Committee. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of $1,622,251 for estimated claims in 2004. Of that amount, $845,429 was for claims incurred but not reported. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(5) State Compensation Insurance (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At June 30, 2004, approximately 26,963 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2004, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2004, $452,115,000 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2004, was $1,062,259. For the fiscal year ended June 30, 2004, $1,474,338 of acquisition costs were amortized.

Statute requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

(6) State Compensation Insurance (Old Fund) – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2004, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2004, $108,500,000 of unpaid claims and claim adjustment expenses were reported at a net present value of $80,778,000, discounted at a 5.25% rate.

(7) Changes in Claims Liabilities For the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Primary Government					
	Hail Insurance		Subsequent Injury		MUS Group Benefits	
	2004	2003	2004	2003	2004	2003
Unpaid claims and claim adjustment expenses at beginning of year	$ 298	$ 43	$2,364	$2,100	$ 3,444	$ 2,982
Incurred claims and claim adjustment expenses: provision for insured events of the current year	1,164	1,696	-	-	35,451	33,675
Increase (decrease) in provision for Insured events of prior years	(184)	(6)	205	797	1,219	461
Total incurred claims and claim adjustment expenses	980	1,690	205	797	36,670	34,136
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(885)	(1,392)	(29)	(35)	(35,451)	(33,674)
Claims and claim adjustment expenses attributable to insured events of prior years	(298)	(43)	(177)	(498)	-	-
Total payment	(1,183)	(1,435)	(206)	(533)	(35,451)	(33,674)
Total unpaid claims and claim adjust. exp. at end of the year	$ 95	$ 298	$2,363	$2,364	$ 4,663	$ 3,444

	Primary Government	Component Units			
	MUS Workers Compensation Program	State Compensation Insurance (New Fund)		State Compensation Insurance (Old Fund)	
	2004	2004	2003	2004	2003
Unpaid claims and claim adjustments expenses at beginning of year	$ -	$413,400	$346,400	$113,181	$128,902
Incurred claims and claim adjustment expenses: Provision for insured events of the current year	2,174	136,059	116,598	-	-
Increase (decrease) in provision for insured events of prior years	-	13,568	35,366	8,215	(1,448)
Total incurred claims and claim adjustment expenses	2,174	149,627	151,964	8,215	(1,448)
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(552)	(34,575)	(22,982)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	-	(76,337)	(61,982)	(12,896)	(14,273)
Total payments	(552)	(110,912)	(84,964)	(12,896)	(14,273)
Total unpaid claims and claim adjust. exp. at end of the year	$1,622	$452,115	$413,400	$108,500	$113,181

(8) Risk Management Trend Information – The following tables only present risk management trend information for the State Compensation Insurance (New Fund) and the MUS Workers Compensation Insurance. Both funds have a three to five-year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

	MUS Workers Compensation Program 2004
1. **Premiums and investment revenue**	
Earned	$2,456
Ceded	151
Net earned	$2,305
2. **Unallocated expenses including overhead**	$8,637
3. **Estimated losses and expenses end of accident year**	
Incurred	$2,174
Ceded	-
Net incurred	$2,174
4. **Net paid (cumulative) as of:**	
End of policy year	$ 552
5. **Re-estimated ceded losses and expenses**	$ -
6. **Re-estimated net incurred losses and expense:**	
End of policy year	$2,174
7. **Increase (decrease) in estimated net incurred losses and expenses from end of policy year**	$ -

(State Compensation Insurance (New Fund) Table presented on next page)

State Compensation Insurance (New Fund)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Premiums and investment revenue										
Earned	$193,096	$136,939	$104,260	$89,522	$81,215	$89,885	$114,225	$127,292	$161,713	$121,494
Ceded	269	519	348	303	260	855	2,952	(465)	5,654	6,563
Net earned	$192,827	$136,420	$103,912	$89,219	$80,955	$89,030	$111,273	$127,757	$156,059	$114,931
2. Unallocated expenses including overhead	$ 14,463	$ 17,554	$ 12,736	$14,525	$19,136	$22,306	$ 27,035	$ 29,844	$ 33,842	$ 42,088
3. Estimated losses and expenses end of accident year										
Incurred	$164,628	$ 95,067	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	$164,628	$ 95,067	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705
4. Net paid (cumulative) as of:										
End of policy year	$ 18,137	$ 15,818	$ 12,589	$12,943	$13,723	$13,177	$ 14,140	$ 16,693	$ 22,982	$ 26,123
One year later	40,473	32,890	28,451	28,222	29,976	29,218	32,888	38,185	48,861	
Two years later	52,073	42,361	35,706	35,753	39,298	37,555	45,218	52,359		
Three years later	58,722	47,283	39,860	41,004	45,748	43,649	55,248			
Four years later	62,419	50,267	43,105	44,478	49,984	48,322				
Five years later	65,919	52,791	46,478	47,584	54,212					
Six years later	68,541	54,962	48,505	50,188						
Seven years later	70,816	57,654	50,402							
Eight years later	72,803	59,193								
Nine years later	74,989									
5. Re-estimated ceded losses and expenses	$ -	$ -	$ 6,477	$ 582	$ 2,311	$ -	$ -	$ -	$ -	$ -
6. Re-estimated net incurred losses and expense:										
End of policy year	$164,628	$ 95,067	$ 76,067	$64,983	$64,645	$65,957	$ 68,267	$ 81,560	$110,153	$120,705
One year later	124,123	88,923	67,235	64,308	64,348	66,421	71,094	86,799	110,532	
Two years later	107,074	77,286	59,054	60,467	66,660	66,662	81,053	91,241		
Three years later	95,456	73,864	60,811	61,989	69,345	70,302	88,157			
Four years later	94,517	74,022	64,439	64,944	72,435	72,492				
Five years later	92,231	73,197	59,079	67,312	73,710					
Six years later	91,771	74,329	60,528	67,772						
Seven years later	92,637	76,955	60,630							
Eight years later	93,637	76,849								
Nine years later	94,036									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	$ (70,592)	$(18,218)	$ (15,437)	$ 2,789	$ 9,065	$ 6,535	$ 19,890	$ 9,681	$ 379	$ -

B. Entities Other Than Pools

(1) Group Employee Comprehensive Medical and Dental Plan – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, and New West for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2004, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, were $11,195,548 based on a formula provided by Mellon Consultants, a consulting actuarial firm, of which $5,864,318 is estimated to be paid in fiscal year 2005.

(2) Property & Casualty Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure housing units. The State self-insures the $250,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below $250,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects approximately $2.6 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $1 million for earthquake and $500,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1994 through June 30, 2004, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2004, estimated claims liability of $25,557,823 is reported in the accompanying financial statements.

(3) Changes in Claims Liabilities For the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medical & Dental		Prop. & Casualty Insurance	
	2004	2003	2004	2003
Amount of claims liabilities at the beginning of each fiscal year	$ 11,487	$ 9,164	$30,927	$29,848
Incurred claims:				
Provision for insured events of the current year	70,164	72,085	7,723	7,544
Increases (decreases) in provision for insured events of prior years	(290)	2,323	(8,651)	(602)
Total incurred claims	69,874	74,408	(928)	6,942
Payments:				
Claims attributable to insured events of the current year	(64,699)	(66,300)	(816)	(742)
Claims attributable to insured events of prior years	(5,467)	(5,785)	(3,625)	(5,121)
Total payments	(70,166)	(72,085)	(4,441)	(5,863)
Total claims liability at end of each fiscal year	$ 11,195	$ 11,487	$25,558	$30,927

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2004, the Department of Transportation had contractual commitments of approximately $141.8 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2004, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $10.3 million for capital projects construction. The primary government will fund $6.9 million of these projects, with the remaining $3.4 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Fund. These commitments have expiration dates and may be extended according to the BOI's policies. As of June 30, 2004, the BOI had committed but not yet purchased $69,281,764 in loans from Montana lenders. In addition to the above commitments, lenders had reserved $12,021,150 for loans as of June 30, 2004.

The BOI makes firm commitments to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2004, the BOI had committed but not yet purchased from Montana lenders, mortgages totaling $124,550. Lenders had reserved no funding for mortgages as of June 30, 2004.

D. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

Primary Government	Amount
Enterprise funds	
HUD Section 8 Housing	$ 25
Liquor Warehouse	12
Historical Society Publications	4
Subtotal-enterprise funds	$ 41
Internal service funds	
DEQ Indirect Cost Pool	$335
Admin Supply	205
Building and Grounds	194
Info Tech Services Division	87
FWP Equipment	59
Payroll Processing	2
Subtotal-internal service funds	$882
Total-primary government	$923

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2004, were as follows (in thousands):

	Primary Government	Discretely Presented Component Units		
Fiscal Year Ending June 30	Governmental Activities	Montana State University	University of Montana	Total
2005	$ 861	$33	$ 437	$ 470
2006	768	25	241	266
2007	522	11	205	216
2008	180	-	38	38
2009	33	-	20	20
2010-2014	256	-	-	-
Total minimum pmts	2,620	69	941	1,010
Less: interest	(288)	(8)	(113)	(121)
Present value of minimum payments	$2,332	$61	$ 828	$ 889

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2004 totaled $12,358,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2005	$12,241	$1,459
2006	10,296	1,000
2007	9,189	723
2008	8,045	642
2009	7,523	510
2010-2014	24,748	2,180
2015-2019	9,520	1,726
2020-2024	1,119	-
Total future rental payments	$82,681	$8,240

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The State issued a tax and revenue anticipation note (TRAN) during fiscal year 2004. The proceeds of the tax anticipation note were used to meet anticipated cash flow deficits during the fiscal year. The TRAN was fully repaid by the end of the fiscal year. The following schedule summarizes the above activity for the year ended June 30, 2004 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
TRAN	$-	$73,400	$73,400	$-

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $120 million as amended by the 2003 Legislature. Previously, INTERCAP bonds could not aggregate more than $80 million through June 30, 2011 and then $75 million thereafter. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from repayments of principal and interest on loans made by the BOI to participating eligible governmental units, investment income under the indenture, and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2004, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2004
1992	$6,500	$ 6,055
1994	7,500	6,895
1995	7,500	7,080
1997	10,000	9,740
1998	12,500	12,285
2000	15,000	15,000
2003	15,000	15,000
2004	18,500	18,500
Total		$90,555

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2004 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$72,190	$18,500	$135	$90,555

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2004, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (11)	Principal Payments FY 2005	Principal Payments In Year of Maturity (7)	Balance June 30, 2004
General obligation bonds						
Wastewater Treatment Works Revolving Fund	1994B	2,200	4.2-6.1	95	180 (2016)	1,590
Long-Range Bldg Program	1994C	21,955	5.125-7.0	1,000	1,000 (2005)	1,000
Energy Conservation Program (2)	1994D	1,600	4.9-7.0	200	200 (2005)	200
Energy Conservation Program (2)	1996A	1,650	3.5-4.4	185	195 (2006)	380
Wastewater Treatment Works Revolving Fund	1996C	2,765	3.75-5.75	135	120 (2017)	2,040
Renewable Resource Program (1)	1997A	2,000	6.8-8.0	120	210 (2013)	1,435
Long-Range Bldg Program	1997B	12,640	4.5-5.0	830	595 (2018)	8,345
Wastewater Treatment Works Revolving Fund	1998A	3,510	3.75-5.15	140	260 (2019)	2,885
Long-Range Bldg Program (16)	1998B	34,545	4.2-5.1	1,430	2,555 (2018)	26,980
Information Technology	1998C	41,390	4.5-5.0	3,600	4,075 (2008)	15,330
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	105	1,720 (2015)	14,165
Energy Conservation Program (2)	1998E	1,250	3.6-4.6	130	150 (2008)	555
Renewable Resource Program (1)	1999	1,035	6.0-6.5	55	105 (2015)	845
Long-Range Bldg Program	1999C	16,990	4.0-5.0	665	1,250 (2019)	13,785
Drinking Water Revolving Fund (9)	1998F	3,065	3.6-4.85	130	230 (2019)	2,595
Drinking Water Revolving Fund (9)	2000A	2,990	4.25-5.6	100	240 (2021)	2,705
Water Pollution Control Revolving Fund (10)	2000B	3,325	4.25-5.6	115	270 (2021)	3,020
Long-Range Bldg Program	2000C	17,195	5.0-5.55	580	1,320 (2020)	14,385
Information Technology	2000D	18,000	5.0-5.25	1,735	1,830 (2006)	3,565
Long-Range Bldg Program	2001B	11,430	4.1-5.75	400	830 (2021)	9,875
Information Technology	2001C	1,600	3.85-4.2	145	185 (2011)	1,145
Energy Conservation Program (2)	2001D	1,250	3.85-4.2	115	145 (2011)	890
Renewable Resource Program (1)	2001E	1,040	5.2-6.8	50	105 (2017)	950
Drinking Water Revolving Fund (9)	2001G	3,190	4.0-5.0	115	235 (2022)	2,985
Water Pollution Control Revolving Fund (10)	2001H	2,690	4.0-5.0	100	200 (2022)	2,515
Long-Range Bldg Program	2002B	10,475	3.35-4.7	405	730 (2023)	10,110
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	80	200 (2023)	2,435
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,250	1,685 (2014)	14,455
Long-Range Bldg Program	2003A	9,730	2.375-4	320	655 (2024)	9,730
Energy Conservation Program (2)	2003B	1,250	2.0-3.0	105	145 (2014)	1,250
Renewable Resource Program Refunding (1)	2003C	1,970	1.45-5.25	440	90 (2019)	1,970
Water Pollution Control Revolving Fund (10)	2003D	2,730	2.0-3.75	145	225 (2019)	2,730
Drinking Water Revolving Fund (9)	2003E	1,675	2.0-3.75	90	140 (2019)	1,675
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	1,970	2,310 (2017)	26,610
Information Technology Refunding	2003H	8,725	2.0-40	165	2,225 (2010)	8,725
Water Pollution Control Revolving Fund (10)	2004A	2,665	2.0-3.8	-	230 (2020)	2,665
Long-Range Bldg Program	2004B	3,125	3.0-4.75	-	170 (2025)	3,125
Total general obligation bonds		$311,420		$17,245		$219,645
Special revenue bonds						
Water Conservation (3)		$ 50	5.0	$ 2	$ 1 (2012)	$ 18
Renewable Resource Program Refunding (4)	1996A	14,985	3.7-5.2	1,145	110 (2017)	7,060
State Hospital Project (6)	1997	25,915	4.0-5.05	805	1,820 (2022)	22,360
Renewable Resource Program (4)	1997A	1,205	6.0-7.3	45	110 (2018)	995

Governmental Activities	Series	Amount Issued	Interest Range (%) (11)	Principal Payments FY 2005	Principal Payments In Year of Maturity (7)	Balance June 30, 2004
Renewable Resource Program (4)	1997B	2,660	3.75-5.375	105	210 (2018)	2,125
Renewable Resource Program (4)	2001A	420	3.65-5.59	15	30 (2021)	375
Renewable Resource Program (4)	2001B	1,750	5.2-7.1	55	150 (2021)	1,605
Renewable Resource Program Refunding (4)	2001C	12,155	2.55-4.3	1,750	790 (2013)	6,700
Broadwater Power Proj Refunding (4)	2001D	21,450	2.25-4.7	1,100	1,795 (2018)	19,480
Renewable Resource Program (4)	2001E	885	2.1-4.85	35	65 (2022)	825
Renewable Resource Program (4)	2001F	900	3.3-6.2	30	75 (2022)	850
Renewable Resource Program (4)	2003A	3,000	1.05-4.05	110	215 (2024)	3,000
Developmental Center Project Refunding (6)	2003	11,510	3.0-5.0	550	970 (2019)	10,975
Total special revenue bonds		$ 96,885		$ 5,747		$ 76,368
Notes payable (17)						
Middle Creek Dam Project (5)		$ 3,272	8.125	$ 46	207 (2034)	$ 2,885
Tongue River Dam Project (8)		11,300	-	290	290 (2038)	9,851
Dept of Corrections Resident Accounting System Loan (10)		320	5.73	71	71 (2005)	71
Total notes payable		$ 14,892		$ 407		$ 12,807
Subtotal governmental activities, before deferred balances						308,820
Deferred amount on refunding						(5,438)
Unamortized discount						(161)
Unamortized premium						1,880
Total governmental activities		$423,197		$23,399		$305,101
Business-type Activities						
Bonds/notes payable						
Economic Development Bonds (12)						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (13)	1998	$ 4,976	6.60-7.75	$ 325	130 (2014)	$ 1,204
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (14)	1991	6,234	4.75-6.5	294	294 (2005)	294
Conservation Reserve Enhancement Program (CRP Bonds) (15)		4,789	6-8	1,053	377 (2009)	4,789
Subtotal economic dev bonds		15,999		1,672		6,287
MUS Workers Compensation Bond Payable		2,050	2.8	395	430 (2008)	1,655
Total business-type activities		$ 18,049		$ 2,067		$ 7,942

(1) All Water Development Program Bonds and the Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
(2) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.
(3) Bonds sold to Farmers Home Administration.
(4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
(5) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes $230,812 of interest owed.
(6) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
(7) Year of maturity refers to fiscal year.
(8) Northern Cheyenne Tribe loan to the Montana Dept. of Natural Resources & Conservation (DNRC). The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
(9) Provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.
(10) Norwest loan to provide funds for the development of a Y2K-compliant resident accounting system.
(11) The interest range is over the life of the obligation.

(12) Economic Development Bonds (EDB) & Municipal Finance Consolidation Act Bonds (MFCAB) – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.

(13) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.

(14) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana school districts. The School District Refunding Bonds, and the interest thereon, are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal of or interest on the bonds.

(15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

(16) The interest range on general obligation bond 1998B has been corrected. It was previously misstated at 3.5-4.85.

(17) At the beginning of fiscal 2004, the INTERCAP loan balances were reclassified to advances from other funds.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2004, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 17,245	$ 8,991	$ 5,747	$ 3,337	$ 407	$ 50
2006	18,025	8,324	5,502	3,128	337	45
2007	18,250	7,595	4,347	2,937	339	44
2008	18,695	6,862	4,152	2,765	341	44
2009	14,410	6,195	4,933	2,568	342	43
2010-2014	68,675	22,363	22,931	9,746	1,743	202
2015-2019	51,560	8,406	21,820	4,545	1,859	175
2020-2024	12,615	1,045	6,936	688	1,951	138
2025-2029	170	4	-	-	2,070	93
2030-2034	-	-	-	-	2,259	36
2035-2039	-	-	-	-	1,159	-
Total	$219,645	$69,785	$76,368	$29,714	$12,807	$870

Business-type Activities

Year Ended June 30	Economic Development Bonds		MUS Workers Compensation Bonds	
	Principal	Interest	Principal	Interest
2005	$1,672	$ 436	$ 395	$46
2006	1,204	337	410	35
2007	1,161	249	420	24
2008	1,228	164	430	12
2009	463	74	-	-
2010-2014	559	114	-	-
Total	$6,287	$1,374	$1,655	$117

Debt service requirements of discretely presented component units at June 30, 2004, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 7,782	$ 32,604	$ 4,937	$ 3,158	$ 3,650	$ 7,002
2006	10,066	32,261	4,988	2,928	4,681	6,753
2007	10,704	31,848	4,022	2,712	4,872	6,588
2008	11,255	31,390	2,943	3,788	5,057	6,416
2009	12,230	30,877	2,736	3,982	5,078	6,237
2010-2014	70,900	144,835	17,024	16,395	25,828	28,146
2015-2019	92,198	126,999	24,760	8,798	32,291	21,530
2020-2024	117,775	97,388	20,215	2,516	42,155	11,659
2025-2029	146,340	61,542	2,085	119	13,730	2,346
2030-2034	116,760	23,043	-	-	4,565	508
2035-2039	23,305	4,948	-	-	-	-
2040-2044	9,730	917	-	-	-	-
Total	$629,045	$618,652	$83,710	$44,396	$141,907	$97,185

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2004, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	$227,625	$ 14,515	$ 22,495	$219,645	$17,245	$202,400
Special revenue bonds	85,070	11,510	20,212	76,368	5,747	70,621
Notes payable (2)	13,210	-	403	12,807	407	12,400
	325,905	26,025	43,110	308,820	23,399	285,421
Deferred amount on refunding	(4,594)	(1,491)	(647)	(5,438)	-	(5,438)
Unamortized discount	(182)	-	(21)	(161)	-	(161)
Unamortized premium	1,590	477	187	1,880	-	1,880
Total bonds/notes payable	322,719	25,011	42,629	305,101	23,399	281,702
Other liabilities						
Lease/installment purchase payable (3)	3,277	2,382	3,327	2,332	740	1,592
Compensated absences payable (1)	71,133	48,407	44,535	75,005	44,528	30,477
Early retirement benefits payable (1)	316	54	155	215	38	177
Arbitrage rebate tax payable (1)	147	22	92	77	46	31
Estimated insurance claims (1)	42,413	77,887	83,547	36,753	14,063	22,690
Total other liabilities	117,286	128,752	131,656	114,382	59,415	54,967
Total governmental activities Long-term liabilities	$440,005	$153,763	$174,285	$419,483	$82,814	$336,669
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	$ 9,266	$ 100	$ 3,079	$ 6,287	$ 1,672	$ 4,615
State Lottery	1,110	-	1,110	-	-	-
MUS Workers Compensation	-	2,050	395	1,655	395	1,260
Total bonds/notes payable	10,376	2,150	4,584	7,942	2,067	5,875
Other liabilities						
Compensated absences payable	1,097	797	666	1,228	665	563
Arbitrage rebate tax payable	170	56	86	140	84	56
Estimated insurance claims	6,105	40,214	37,576	8,743	5,341	3,402
Total other liabilities	7,372	41,067	38,328	10,111	6,090	4,021
Total business-type activities Long-term liabilities	$ 17,748	$ 43,217	$ 42,912	$ 18,053	$ 8,157	$ 9,896

(1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

(2) Governmental activities notes payable beginning balance has been reduced by $8,089,000 to reflect that INTERCAP loans payable have been reclassified to advances from other funds.

(3) Governmental activities lease/installment purchase payable beginning balance has been reduced by $9,000 to reflect a reclassification to advances from other funds.

Long-term liability activity of discretely presented component units for the year ended June 30, 2004, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	$ 624,089	$164,879	$158,013	$ 630,955	$ 7,782	$ 623,173
Montana State University (MSU) (1)	90,304	19,326	22,376	87,254	4,937	82,317
University of Montana (UM) (1)	132,050	40,946	33,000	139,996	3,650	136,346
Total bonds/notes payable	846,443	225,151	213,389	858,205	16,369	841,836
Other liabilities						
Lease/installment purch pay	1,873	113	1,097	889	404	485
Compensated absences pay	41,856	19,812	18,894	42,774	18,996	23,778
Arbitrage rebate tax payable	1,137	322	435	1,024	47	977
Estimated insurance claims	494,300	162,401	123,808	532,893	114,140	418,753
Due to federal government	29,157	1,092	7	30,242	-	30,242
Total other liabilities	568,323	183,740	144,241	607,822	133,587	474,235
	$1,414,766	$408,891	$357,630	$1,466,027	$149,956	$1,316,071
Long-term liabilities of MSU component units					299	1,713
Long-term liabilities of UM component units					483	521
Total discretely presented component units Long-term liabilities					$150,738	$1,318,305

(1) MSU and UM notes payable beginning balances have been reduced by $3,012,000 and $1,427,000, respectively, to reflect that INTERCAP loans payable have been reclassified to advances from primary government.

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2004, the Department of Natural Resources and Conservation used current available resources to make the following pre-payments on special revenue bonds: $445,000 of Series 2001C Renewable Resource Program Refunding.

Advance Refundings

On September 1, 2003, the Department of Public Health and Human Services (DPHHS) issued $11,510,000 of Series 2003 Developmental Center Project Refunding bonds to advance refund $10,665,000 of Series 1994 Developmental Center Project bonds. The net proceeds of $11,442,750 (including an original issue premium of $110,416 and after payment of $361,178 in underwriting fees and other issuance costs) plus an additional $183,512 of certain other available funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 1994 bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of $1,129,765 and an economic gain of $692,129.

On November 1, 2003, the Montana Department of Administration (DofA) issued $8,725,000 of Series 2003H General Obligation Information Technology Refunding bonds to advance refund $8,335,000 of Series 2000D Information Technology bonds with stated maturities in the years 2006, 2007, 2008, and 2009. The net proceeds of $8,943,141 (including a reoffering premium of $344,229 and after payment of $126,088 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 2000D Information Technology bonds with stated maturities in the years 2006, 2007, 2008, and 2009, are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of $299;451 and an economic gain of $280,140.

Deferred loss on primary government refundings at June 30, 2004, was $5,438,000.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the

liability for the defeased bonds are not included in the financial statements. At June 30, 2004, $38,405,000 of bonds outstanding are considered defeased.

Discretely Presented Component Units

Current Refundings

Housing Authority – On August 14, 2003, Series 2003B bonds were issued in the amount of $70,700,000. $20,000,000 of the proceeds were used for a replacement refunding of a portion of the 1995B-1 bonds on September 1, 2003. The refunding resulted in a reduction of debt service to maturity of $11,216,801 and an economic gain of $6,589,802.

Deferred loss on Housing Authority refundings at June 30, 2004, was $1,500,335.

Defeased Debt Outstanding

Montana State University and the University of Montana have defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2004, $4,965,000 and $49,351,963 of bonds outstanding are considered defeased for Montana State University and the University of Montana, respectively.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) Montana Board of Investments (BOI) – Under the Economic Development Act, the BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds At June 30, 2004, industrial revenue bonds outstanding aggregated $207.8 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2004, QZAB debt outstanding aggregated $4.3 million.

Neither the industrial revenue bonds, nor the QZAB debt issued by the BOI constitutes a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

(2) Beginning Farm Loan Program – The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2004, was as follows: Hershberger Project – issued $129,412, outstanding $118,125; Young Project – issued $223,300, outstanding $222,338.

(3) Facility Finance Authority (FFA) - Component Unit – The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2004, revenue bonds outstanding aggregated $631 million, and notes payable outstanding aggregated $14 million.

The Board of Investments and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16.C. (miscellaneous contingencies) for more information.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also includes the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2004, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent
Due From Other Funds						
Coal Severance Tax Permanent	$ -	$ -	$ -	$ -	$ -	$ -
Economic Development Bonds	-	-	-	-	1,699	-
Federal Special Revenue	-	-	-	185	6	-
General Fund	6,868	1	774	-	98	-
Internal Service Funds	43	5	1,178	1,674	388	-
Land Grant Permanent	-	-	-	-	-	-
Nonmajor Enterprise Funds	-	-	32	108	45	-
Nonmajor Governmental Funds	-	-	519	-	112	537
State Special Revenue	196	-	1,358	6,872	304	13,056
Unemployment Insurance	-	-	-	-	1	-
Total	$7,107	$6	$3,861	$8,839	$2,653	$13,593

	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Unemployment Insurance	Total
Due From Other Funds *(continued)*						
Coal Severance Tax Permanent	$ -	$ -	$ -	$1,854	$ -	$ 1,854
Economic Development Bonds	-	501	24	918	-	3,142
Federal Special Revenue	-	-	-	590	657	1,438
General Fund	9,490	88	-	1,326	-	18,645
Internal Service Funds	130	157	-	2,606	-	6,181
Land Grant Permanent	-	99	-	177	-	276
Nonmajor Enterprise Funds	-	-	-	47	-	232
Nonmajor Governmental Funds	3	4	-	66	-	1,241
State Special Revenue	67	2,304	-	-	-	24,157
Unemployment Insurance	-	-	-	-	-	1
Total	$9,690	$3,153	$24	$7,584	$657	$57,167

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2004, consisted of the following (in thousands):

	Interfund Loans Payable							
	Coal Severance Tax Permanent	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Unemployment Insurance	Total
Interfund Loans Receivable								
Federal Special Revenue	$ -	$ -	$ 50	$ -	$ -	$ 194	$ -	$ 244
General Fund	42	24,357	10	120	200	19,607	-	44,336
Internal Service Funds	-	399	-	175	-	-	-	574
Nonmajor Enterprise Funds	-	93	-	-	-	-	-	93
State Special Revenue	-	39,031	2,159	-	430	-	1	41,621
Total	$42	$63,880	$2,219	$295	$630	$19,801	$1	$86,868

C. Advances To/From Other Funds

Advances to/from other funds represents the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also includes the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2004, consisted of the following (in thousands):

	Advances From Other Funds					
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Total
Advances To Other Funds						
Coal Severance Tax Permanent	$ -	$ -	$ -	$ -	$52,469	$52,469
Economic Development Bonds		3,181		204	5,797	9,182
Federal Special Revenue	-	100		-	-	100
General Fund	40	-		-	60	100
Nonmajor Enterprise Funds	75	180		-	-	255
Nonmajor Governmental Funds	-	-		-	3,002	3,002
State Special Revenue	778	-	10,805	-	-	11,583
Total	$893	$3,461	$10,805	$204	$61,328	$76,691

Advance payable balances at June 30, 2004, owed to the Economic Development Bonds Fund under the INTERCAP loan program, consisted of the following (in thousands):

Department	Balance
Administration	$ 204
Environmental Quality	1,137
Historical Society	72
Justice	4,417
Natural Resources and Conservation	171
Transportation	3,181
Total	$9,182

Advance payable balances at June 30, 2004, owed to the Coal Severance Tax Permanent Fund, consisted of the following (in thousands):

Department	Balance
Justice	$ 2,225
Natural Resources and Conservation	44,546
Revenue	5,698
Total	$52,469

D. Interfund Transfers

Routine transfers between funds are recorded to: (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2004, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds
Transfers Out						
Coal Severance Tax Permanent	$ -	$ -	$35,134	$ -	$ -	$ 1,474
Federal Special Revenue	-	-	1	-	3,520	1,979
General Fund	-	-	-	398	47	17,082
Internal Service Funds	-	-	-	550	-	369
Land Grant Permanent	-	-	-	-	-	2,042
Nonmajor Enterprise Funds	-	-	26,298	-	-	-
Nonmajor Governmental Funds	-	-	932	500	-	1,488
State Special Revenue	3,405	20	4,036	719	18	15,318
Unemployment Insurance	-	4,297	-	-	-	-
Total	$3,405	$4,317	$66,401	$2,167	$3,585	$39,752
					(1)	

	State Special Revenue	Total	
Transfers Out *(continued)*			
Coal Severance Tax Permanent	$ 7,361	$ 43,969	
Federal Special Revenue	22,165	27,665	
General Fund	12,097	29,624	
Internal Service Funds	-	919	(2)
Land Grant Permanent	63,776	65,818	
Nonmajor Enterprise Funds	3,710	30,008	
Nonmajor Governmental Funds	16,654	19,574	
State Special Revenue	-	23,516	
Unemployment Insurance	-	4,297	
Total	$125,763	$245,390	

(1) Total transfers-in for non-major enterprise funds on the financial statements is reported as $3,452,000. The difference of $133,000 between the amount reported above of $3,585,000 and the amount reported on the financial statements relates to the movement of general long-term liabilities as a result of reclassifying a federal special revenue fund to the HUD Section 8 Enterprise Fund. The general long-term liabilities related to the federal special revenue fund were assigned to the HUD Section 8 Enterprise Fund. No amounts relating to this transfer were reported in the federal special revenue fund on the fund financial statements, as governmental funds do not record general long-term liabilities. However, because enterprise funds report long-term liabilities in the fund financial statements, the HUD Section 8 fund reported transfer activity related to these liabilities.

(2) Total transfers-out for all internal service funds on the financial statements is reported as $1,339,000. The difference of $420,000 between the amount reported above of $919,000 and the amount reported on the financial statements relates to the movement of capital assets as a result of combining the Mail & Messenger Internal Service Fund with the Publications & Graphics Internal Service Fund. The new combined fund is reported as the Print & Mail Services Internal Service Fund. When the capital assets were transferred between these funds, the receiving fund recorded the net book value of the capital assets as a capital contribution and the transferring fund recorded the net book value of the capital assets as a transfer-out.

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2004, (in thousands):

Fund Type/Fund	Deficit
Capital projects funds	
Federal/Private Construction Grants	$ (426)
Enterprise funds	
MUS Workers Compensation	$ (127)
Subsequent Injury	$ (527)
Internal service funds	
Administration Insurance	$(21,213)
Administration Central Services	$ (48)
OPI Central Services	$ (44)
Justice Legal Services	$ (86)
Pension (and other employee benefit) trust funds	
Voluntary Employee Benefit Association	$ (95)

The net assets deficit in the Administration Insurance and Subsequent Injury funds are due to recording the expense for estimated claims including claims incurred, but not reported. Refer to Note 8 for further discussion of these funds.

NOTE 14. RESERVED FUND BALANCES

Special Revenue Funds – The State and Federal Special Revenue Fund Reserved fund balances are for the following purposes:

Fund Type/Purpose	Amount
State Special Revenue funds	
General Government	$ 15,913
Public Safety/Corrections	174,772
Transportation	40,038
Health/Social Services	6,383
Education/Cultural	3,166
Resource/Recreation/Environment	264,734
Economic Development/Assistance	33,494
Total state special revenue funds	$538,500
Federal Special Revenue funds	
General Government	$ 9,768
Public Safety/Corrections	507
Health/Social Services	1,309
Education/Cultural	11,221
Resource/Recreation/Environment	3,863
Economic Development/Assistance	389
Total federal special revenue funds	$27,057

Coal Severance Tax Permanent Fund – The reserve for trust principal is comprised of the following: Permanent Coal Tax Trust $658,947 and the Treasure State Endowment Fund $128,981 (in thousands).

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 57.27% of the Regents' outstanding loan volume, or $646,792,084, is held by MHESAC. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana (SAF), and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have four common board members. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2004 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2004 amounted to $495,739. SAF also pays OCHE reimbursement for services such as telephones, postage, and computer services. During fiscal year 2004, SAF paid OCHE a total of $146,141.

A staff member in the Department of Administration, Personnel Division, serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this Association $1 per member per year to maintain its membership as

well as a monthly fee of $3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis and consulting services performed by Association staff on behalf of member employers.

NOTE 16. CONTINGENCIES

A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In Swingley, et al. v. Montana Highway Patrol, filed in Lewis and Clark County, Highway Patrol officers brought an administrative wage claim seeking payment for overtime hours. In this case, the court held that there was a waiver of sovereign immunity and, therefore, the Fair Labor Standards Act (FLSA) applies. If the class is defined based on the FLSA statute of limitations, that class includes in excess of 200 officers and seeks overtime compensation for all lunch hours for a period of 3 ½ years, and seeks to have overtime and retirement contributions and benefits recalculated based on the contention that subsistence pay which was to cover meals, travel, uniform maintenance, and a home telephone for each officer should have been included in the officers' base pay. Depending upon the size of the class as defined by the court, the State's potential exposure is $9 million to $20 million. This case is scheduled for mediation on December 10, 2004.

B. Federal Contingencies

USDA Commodities – In fiscal year 2004, the State distributed $4,780,825 in commodities. The value of the commodities stored in the State's warehouses was $1,509,580 at June 30, 2004, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2004, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling $126,787,072. The BOI's exposure to bond issues of the Economic Development Bonds Fund was $92,052,796, while exposure to bond issues and surety bonds of the Facility Finance Authority was $34,734,276.

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2004, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Coal severance	$ 542	$153	$1,027	$19	$238
Oil & gas	1,999	217	-	-	-
Corporation tax	5,050	-	-	-	-
Total	$7,591	$370	$1,027	$19	$238

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2004. The corporations have appealed the decision. As of June 30, 2004, these include $4,917,321 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2004. As of June 30, 2004, these include $8,950,000 of protested General Fund property taxes.

NOTE 17. SUBSEQUENT EVENTS

A. Bond Issues

On July 8, 2004, the Montana Board of Housing issued $68 million in Single Family Mortgage Revenue bonds, Series 2004B.

On August 25, 2004, the Department of Natural Resources and Conservation issued $1.6 million of taxable general obligation Renewable Resource Loan Program bonds, Series 2004B.

On October 26, 2004, Montana State University issued $23.665 million in Facilities Improvement Revenue bonds, Series 2004H. The bond proceeds will be used to construct and equip a new chemistry/biochemistry building on the Bozeman campus.

On November 10, 2004, the Montana Board of Housing issued $54.6 million in Single Family Mortgage Revenue bonds, Series 2004C.

B. Federal Financial Assistance

The State receives federal financial assistance for specified purposes, which is subject to review and audit in accordance with the Single Audit Act Amendments of 1996. Any disallowances resulting from these audits become the liability of the State. For fiscal year 2004, the federal government disallowed various National Highway Traffic Safety sub-grant costs. In fiscal year 2005, a payment was made to the federal government in the amount of $351,154 to reimburse for these disallowed costs.

NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

A. Constitutionality of IRIS Funding

The State's bond counsel and the State's Legislative Audit Division have raised several legal concerns related to legislation passed by the State's Legislature. A discussion of these concerns and the actions planned to address them follows.

Chapter 597, Laws of 2003, authorized funding not to exceed $17 million for the Department of Revenue to replace the Process Oriented Integrated System computer system. The replacement system is called the Integrated Revenue Information System (IRIS). In accordance with this legislation, the Department of Revenue entered into an interfund advance agreement with the Montana Board of Investments to borrow money from the Coal Severance Tax Permanent Fund. As of June 30, 2004, the Department of Revenue had drawn $5,886,467 on the interfund advance and repaid $188,025, leaving a balance of $5,698,442.

The legislation discussed above, related to funding for the IRIS project, authorized state debt without the constitutionally mandated two-thirds vote of the members of each house of the Legislature or a majority of the electors voting on the issue. Although the Department of Revenue liability is reported as an interfund advance payable in the State Special Revenue Fund on the State's financial statements, state law defines state debt as the incurring of an obligation for which repayment extends beyond the existing budgeting and reporting period and for which the source of repayment is revenue derived from the State's taxing power. In addition, the legislation indirectly places the Coal Severance Tax Permanent Fund corpus at risk, and inappropriately delegates authority to allocate state tax resources to the Executive branch.

The 2007 Biennium Executive Budget recommendations submitted to the Fifty-Ninth Legislative Assembly by the State's Governor, includes a recommendation to appropriate funds from the General Fund, which would repay the interfund advance to the Coal Severance Tax Permanent Fund.

B. Constitutionality of Retirement System Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. As of June 30, 2004, there were four retirement systems not in compliance: the Teachers Retirement System (TRS), the Public Employee Retirement System (PERS) Defined Benefit Retirement Plan, the Sheriffs Retirement System, and the Game Wardens and Peace Officers Retirement System. Detailed information for each plan can be found in Note 6.

Based on the results of an actuarial valuation completed in 2004, the TRS Board will recommend options to the Legislature that are considered necessary for the Teachers Retirement System to remain actuarially sound. For the remaining three retirement systems not in compliance, the PERS Board has drafted legislation for the 2005 Legislative Session to address the requirement that the plans remain actuarially sound.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	$ 126,732	$ 126,732	$ 130,974	$ 4,242
Taxes:				
Natural resource	38,283	38,283	53,199	14,916
Individual income	558,009	558,009	534,369	(23,640)
Corporate income	64,812	64,812	63,457	(1,355)
Property	168,604	168,604	168,563	(41)
Fuel	-	-	-	-
Other	197,215	197,215	206,573	9,358
Charges for services/fines/forfeits/settlements	36,340	36,340	40,633	4,293
Investment earnings	14,078	14,078	7,118	(6,960)
Sale of documents/merchandise/property	296	296	311	15
Rentals/leases/royalties	68	68	55	(13)
Contributions/premiums	-	-	-	-
Grants/contracts/donations	1,593	1,593	3,315	1,722
Federal	23,927	23,927	29,132	5,205
Federal indirect cost recoveries	99	99	142	43
Other revenues	1,371	1,371	1,276	(95)
Total revenues	1,231,427	1,231,427	1,239,117	7,690
EXPENDITURES				
Current:				
General government	172,880	190,972	168,870	22,102
Public safety/corrections	131,124	131,992	127,888	4,104
Transportation	177	178	170	8
Health/social services	266,466	266,836	251,556	15,280
Education/cultural	661,918	664,352	662,444	1,908
Resource/recreation/environment	20,060	20,209	20,044	165
Economic development/assistance	21,323	21,323	21,062	261
Debt service:				
Principal retirement	2,338	2,464	620	1,844
Interest/fiscal charges	1,157	1,157	1,158	(1)
Capital outlay	1,408	1,481	1,345	136
Total expenditures	1,278,851	1,300,964	1,255,157	45,807
Excess of revenue over (under) expenditures	(47,424)	(69,537)	(16,040)	53,497
OTHER FINANCING SOURCES (USES)				
Loans issued	-	-	-	-
Bonds issued	-	-	-	-
Refunding bonds issued	-	-	-	-
General capital asset sale proceeds	91	91	79	(12)
Transfers in	68,551	68,551	62,503	(6,048)
Transfers out	(19,682)	(19,115)	(15,793)	3,322
Total other financing sources (uses)	48,960	49,527	46,789	(2,738)
Net change in fund balances (Budgetary basis)	1,536	(20,010)	30,749	50,759
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	374	374
2. Securities lending costs	-	-	(324)	(324)
3. Bond premium	-	-	-	-
4. Inception of lease/installment contract	-	-	648	648
5. Adjust expenditures for encumbrances	-	-	599	599
6. Adjustments for nonbudgeted activity	-	-	59,396	59,396
Net change in fund balances (GAAP basis)	1,536	(20,010)	91,442	111,452
Unreserved fund balances - July 1	43,065	43,065	43,065	-
Prior period adjustments	-	-	(833)	(833)
Decrease (increase):				
Encumbrances reserve	-	-	(578)	(578)
Long-term loans/notes receivable reserve	-	-	1	1
Advances to other funds reserve	-	-	-	-
Special revenue reserve	-	-	-	-
Escheated property reserve	-	-	(224)	(224)
Unreserved fund balances - June 30	$ 44,601	$ 23,055	$ 132,873	$ 109,818

The notes to the required supplementary information are an integral part of this schedule.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
$ 99,800	$ 99,800	$ 108,982	$ 9,182	$ -	$ -	$ -	$ -
40,643	40,643	57,386	16,743	-	-	-	-
-	-	234	234	-	-	-	-
-	-	-	-	-	-	-	-
24	24	20	(4)	-	-	-	-
194,854	194,854	197,430	2,576	-	-	-	-
33,251	33,251	45,102	11,851	-	-	-	-
77,790	77,790	73,936	(3,854)	42,809	42,809	72,916	30,107
4,984	4,984	1,915	(3,069)	375	375	247	(128)
11,500	11,500	4,253	(7,247)	1	1	1	-
(731)	(731)	432	1,163	-	-	-	-
6,302	6,302	7,842	1,540	-	-	-	-
24,994	24,994	14,724	(10,270)	65	65	139	74
14,659	14,659	1,578	(13,081)	1,606,239	1,606,239	1,353,461	(252,778)
100	100	34,280	34,180	30,248	30,248	3,330	(26,918)
17,302	17,302	1,888	(15,414)	1,956	1,956	43	(1,913)
525,472	525,472	550,002	24,530	1,681,693	1,681,693	1,430,137	(251,556)
77,936	79,018	71,367	7,651	6,686	15,119	6,545	8,574
40,607	42,117	36,521	5,596	39,824	71,285	38,839	32,446
229,617	283,431	238,875	44,556	329,545	302,804	255,488	47,316
66,595	67,661	52,987	14,674	842,179	853,934	811,549	42,385
67,859	68,427	64,715	3,712	181,458	189,820	170,766	19,054
146,579	149,623	90,667	58,956	107,785	158,599	125,143	33,456
71,127	75,163	49,058	26,105	79,156	83,550	68,946	14,604
8,935	8,410	476	7,934	166	316	238	78
702	702	620	82	20	20	21	(1)
56,834	60,743	26,281	34,462	26,858	56,511	12,750	43,761
766,791	835,295	631,567	203,728	1,613,677	1,731,958	1,490,285	241,673
(241,319)	(309,823)	(81,565)	228,258	68,016	(50,265)	(60,148)	(9,883)
670	670	-	(670)	-	-	-	-
32,898	32,898	2,665	(30,233)	-	-	-	-
11,620	11,620	11,510	(110)	-	-	-	-
218	218	217	(1)	-	-	-	-
138,221	138,221	118,536	(19,685)	37,775	37,775	8,461	(29,314)
(19,162)	(16,782)	(2,784)	13,998	(39,645)	(42,171)	(9,561)	32,610
164,465	166,845	130,144	(36,701)	(1,870)	(4,396)	(1,100)	3,296
(76,854)	(142,978)	48,579	191,557	66,146	(54,661)	(61,248)	(6,587)
-	-	378	378	-	-	-	-
-	-	(328)	(328)	-	-	-	-
-	-	111	111	-	-	-	-
-	-	127	127	-	-	522	522
-	-	(8,513)	(8,513)	-	-	1,718	1,718
-	-	(29,753)	(29,753)	-	-	40,914	40,914
(76,854)	(142,978)	10,601	153,579	66,146	(54,661)	(18,094)	36,567
476,229	476,229	476,229	-	25,450	25,450	25,450	-
-	-	(5,622)	(5,622)	-	-	(2,010)	(2,010)
-	-	10,320	10,320	-	-	(2,439)	(2,439)
-	-	(25,614)	(25,614)	-	-	448	448
-	-	(1,011)	(1,011)	-	-	200	200
-	-	(538,500)	(538,500)	-	-	(13,826)	(13,826)
-	-	(23)	(23)	-	-	-	-
$ 399,375	$ 333,251	$ (73,620)	$ (406,871)	$ 91,596	$ (29,211)	$ (10,271)	$ 18,940

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the Legislative Fiscal Division. The Governor and budget director establish priorities and the proposed budget. The Governor's budget is submitted to the Legislative Fiscal Division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2004, reverted governmental fund appropriations were as follows: General Fund - $99.4 million, State Special Revenue Fund - $107.3 million, and Federal Special Revenue Fund - $174.2 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

		AMOUNT
AGENCY FOR INTERNATIONAL DEVELOPMENT		
02.999	Education in Russia	135,064
	TOTAL	**$135,064**
PEACE CORPS		
08.999	Miscellaneous Non-Major Grants	12,210
	TOTAL	**$12,210**
DEPARTMENT OF AGRICULTURE		
10.001	Agricultural Research-Basic and Applied Research	45,972
10.025	Plant and Animal Disease, Pest Control, and Animal Care	887,613
10.069	Conservation Reserve Program	14,771
10.072	Wetlands Reserve Program	1,741
10.156	Federal-State Marketing Improvement Program	25,771
10.162	Inspection Grading and Standardization	69,618
10.163	Market Protection and Promotion	34,712
10.200	Grants for Agricultural Research, Special Research Grants	52,199
10.206	Grants for Agricultural Research-Competitive Research Grants	44,903
10.207	Animal Health and Disease Research	5,104
10.210	Food and Agricultural Sciences National Needs	5,066
10.302	Initiative for Future Agriculture and Food Systems: From Univ. of Wyoming	132,159
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	515,779
10.500	Cooperative Extension Service	3,161,573
10.500	Cooperative Extension Service: From Utah State Unv.	1,759
10.500	Cooperative Extension Service: From Washington State U.	2,397
10.550	Food Donation	2,542,989
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	13,568,466
10.558	Child and Adult Care Food Program	9,168,660
10.560	State Administrative Expenses for Child Nutrition	360,978
10.565	Commodity Supplemental Food Program	1,625,077
10.567	Food Distribution Program on Indian Reservations	3,830,316
10.570	Nutrition Services Incentive	866,616
10.572	WIC Farmers' Market Nutrition Program (FMNP)	77,254
10.574	Team Nutrition Grants	210,910

			AMOUNT
10.601	Market Access Program: From Univ. of Wisconsin		6,612
10.652	Forestry Research		40,570
10.652	Forestry Research: From A. Carhart		(93)
10.664	Cooperative Forestry Assistance		8,983,955
10.672	Rural Development, Forestry, and Communities		443,017
10.677	Forest Land Enhancement Program		72,489
10.769	Rural Business Enterprise Grants		17,899
10.771	Rural Cooperative Development Grants		169,056
10.773	Rural Business Opportunity Grants		304,199
10.855	Distance Learning and Telemedicine Loans and Grants		186,240
10.901	Resource Conservation and Development: From Dull Knife C.C.		(613)
10.902	Soil and Water Conservation		313,231
10.999	Miscellaneous Non-Major Grants		861,845
		TOTAL	**$48,650,810**
CHILD NUTRITION CLUSTER			
10.553	School Breakfast Program		3,838,161
10.555	National School Lunch Program		16,046,711
10.556	Special Milk Program for Children		37,068
10.559	Summer Food Service Program for Children		799,560
		TOTAL	**$20,721,500**
EMERGENCY FOOD ASSISTANCE CLUSTER			
10.568	Emergency Food Assistance Program (Administrative Costs)		223,035
10.569	Emergency Food Assistance Program (Food Commodities)		1,123,897
		TOTAL	**$1,346,932**
FOOD STAMP CLUSTER			
10.551	Food Stamps		77,555,762
10.561	State Administrative Matching Grants for Food Stamp Program		6,821,692
		TOTAL	**$84,377,454**
SCHOOLS AND ROADS CLUSTER			
10.665	Schools and Roads: Grants to States		12,426,043
		TOTAL	**$12,426,043**

			AMOUNT
DEPARTMENT OF COMMERCE			
11.550	Public Telecommunication Facilities-Planning and Construction		1,900,123
11.552	Technology Opportunities Program		61,190
		TOTAL	**$1,961,313**
PUBLIC WORKS AND E.D. CLUSTER			
11.307	Economic Adjustment Assistance		520,306
		TOTAL	**$520,306**
DEPARTMENT OF DEFENSE			
12.110	Planning Assistance to States		611,847
12.112	Payments to States in Lieu of Real Estate Taxes		33,201
12.400	Military Construction National Guard		1,216,072
12.401	National Guard Military Operations and Maintenance Projects		11,127,302
12.404	National Guard Civilian Youth Opportunities		1,657,582
12.999	Miscellaneous Non-Major Grants		1,152,938
		TOTAL	**$15,798,942**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families		238,508
14.228	Community Development Block Grant/States Program		9,331,005
14.231	Emergency Shelter Grants Program		376,477
14.239	Home Investment Partnerships Program		6,116,415
14.241	Housing Opportunities for Persons with AIDS		363,310
14.246	Community Development Block Grants/Brownfields Economic Development Initiative		985,807
14.871	Section 8 Housing Choice Vouchers		17,278,245
		TOTAL	**$34,689,767**
SECTION 8 PROJECT-BASED CLUSTER			
14.195	Section 8 Housing Assistance Payments Program Special Allocations		15,688,425
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation		2,123,719
		TOTAL	**$17,812,144**

		AMOUNT
DEPARTMENT OF THE INTERIOR		
15.034	Agriculture on Indian Lands	137,707
15.043	Indian Child and Family Education	6,268
15.114	Indian Education: Higher Education Grant Program	75,343
15.130	Indian Education - Assistance to Schools	31,766
15.224	Cultural Resource Management	79,816
15.225	Recreation Resource Management	20,486
15.227	Distribution of Receipts to State and Local Governments	223,493
15.228	Wildland Urban Interface Community and Rural Fire Assistance	(81,031)
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	1,029,861
15.252	Abandoned Mine Land Reclamation (AMLR) Program	4,759,658
15.504	Water Reclamation and Water Reuse Program	123,415
15.608	Fish and Wildlife Management Assistance	34,281
15.612	Endangered Species Section 6	84,303
15.615	Cooperative Endangered Species Conservation Fund	200,667
15.634	State Wildlife Grants	958,809
15.805	Assistance to State Water Resources Research Institutes	5,529
15.808	U.S. Geological Survey-Research and Data Acquisition	29,402
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	71,500
15.812	Cooperative Research Units Program: From MT Lewis & Clark Bic.	7,728
15.904	Historic Preservation Fund Grants-in-Aid	1,115,127
15.912	National Historic Landmark	103,721
15.915	Technical Preservation Services	45,032
15.916	Outdoor Recreation: Acquisition, Development and Planning	22,999
15.923	National Center for Preservation Technology and Training	280,490
15.999	Miscellaneous Non-Major Grants	4,726,653
15.DAK	Wildlife Management	197,178
15.DAX	Fire - Rural Assistance	620,196
	TOTAL	**$14,910,397**
FISH AND WILDLIFE CLUSTER		
15.605	Sport Fish Restoration	6,090,163
15.611	Wildlife Restoration	6,019,353
	TOTAL	**$12,109,516**

DEPARTMENT OF JUSTICE

		AMOUNT
16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	19,180
16.202	Offender Reentry Program	615,285
16.523	Juvenile Accountability Incentive Block Grants	924,751
16.525	Grants to Reduce Violent Crimes Against Women on Campus	154,231
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	951,459
16.543	Missing Children Assistance	6,747
16.547	Victims of Child Abuse	61,609
16.549	Part E State Challenge Activities	85,844
16.550	State Justice Statistics Program For Statistical Analysis Centers	44,273
16.554	National Criminal History Improvement Program (NCHIP)	703,112
16.575	Crime Victim Assistance	1,510,938
16.576	Crime Victim Compensation	309,000
16.579	Byrne Formula Grant Program	2,741,171
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	175,541
16.585	Drug Court Discretionary Grant Program	25,999
16.588	Violence Against Women Formula Grants	1,001,529
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	139,836
16.592	Local Law Enforcement Block Grants Program	213,521
16.593	Residential Substance Abuse Treatment for State Prisoners	386,608
16.606	State Criminal Alien Assistance Program	49,837
16.609	Community Prosecution and Project Safe Neighborhoods	28,461
16.710	Public Safety Partnership and Community Policing Grants	2,778,056
16.727	Enforcing Underage Drinking Laws Program	360,002
16.999	Miscellaneous Non-Major Grants	42,727
	TOTAL	**$13,329,717**

DEPARTMENT OF LABOR

17.002	Labor Force Statistics	711,212
17.005	Compensation and Working Conditions	47,339
17.203	Labor Certification for Alien Workers	62,378
17.225	Unemployment Insurance	101,165,703

		AMOUNT
17.235	Senior Community Service Employment Program	555,778
17.245	Trade Adjustment Assistance-Workers	2,887,835
17.248	Employment and Training Research and Development Projects	10,626
17.249	Employment Services and Job Training: Pilot and Demonstration Programs: From MT Job Training Program	97,801
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	241,716
17.267	WIA Incentive Grants - Section 503 Grants to States	4,729
17.504	Consultation Agreements	411,282
17.720	Employment Programs for People with Disabilities: From MT Job Training Part. Inc	177,406
17.802	Veterans' Employment Program	248
17.999	National Occupational Information Coordinating Committee	5,616
	TOTAL	**$106,379,669**
	EMPLOYMENT SERVICES CLUSTER	
17.207	Employment Service	6,213,581
17.207	Employment Service: From S. Carolina Emp. Comm.	6,068
17.207	Employment Service: From State of Nevada	5,191
17.207	Employment Service: From N. Carolina Emp. Comm.	4,670
17.207	Employment Service: From MT Job Training Program	1,276
17.801	Disabled Veterans Outreach Program (DVOP)	461,244
17.804	Local Veterans' Employment Representative Program	260,453
	TOTAL	**$6,952,483**
	WORKFORCE INVESTMENT ACT CLUSTER	
17.258	WIA Adult Program	2,849,111
17.259	WIA Youth Activities	2,920,082
17.260	WIA Dislocated Workers	8,225,997
	TOTAL	**$13,995,190**
	DEPARTMENT OF STATE	
19.404	Professional Development International Educators/Administrators	54,917
19.405	College and University Partnerships Program	18,732
19.408	Educational Exchange - Teachers from Secondary and Postsecondary Levels	77,935
19.420	Cooperative Grants: From NAFSA: Assoc. of Int. Ed.	2,372
19.999	Miscellaneous Grants	65,030

			AMOUNT
		TOTAL	$218,986
DEPARTMENT OF TRANSPORTATION			
20.005	Boating Safety Financial Assistance		309,840
20.106	Airport Improvement Program		487,964
20.218	National Motor Carrier Safety		1,194,247
20.219	Recreational Trails Program		648,790
20.505	Federal Transit - Metropolitan Planning Grants		293,295
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities		369,502
20.700	Pipeline Safety		13,732
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants		109,525
		TOTAL	$3,426,895
	FEDERAL TRANSIT CLUSTER		
20.500	Federal Transit Capital Improvement Grants		109,239
20.507	Federal Transit - Formula Grants		2,288,393
		TOTAL	$2,397,632
	HIGHWAY PLAN. & CONST. CLUSTER		
20.205	Highway Planning and Construction		274,873,401
		TOTAL	$274,873,401
	HIGHWAY SAFETY CLUSTER		
20.600	State and Community Highway Safety		10,638,992
		TOTAL	$10,638,992
DEPARTMENT OF TREASURY			
21.999	Miscellaneous Non-Major Grants		43,796,375
		TOTAL	$43,796,375
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			
30.002	Employment Discrimination-State and Local Fair Employment Practices		108,363
		TOTAL	$108,363
GENERAL SERVICES ADMINISTRATION			
39.003	Donation of Federal Surplus Personal Property		195,759

		AMOUNT
39.011	Election Reform Payments	1,440,529
	TOTAL	**$1,636,288**

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

43.000	NASA	37,185
43.001	Aerospace Education Services Program	21,391
43.001	Aerospace Education Services Program: From JASON Foundation	12,711
43.002	Technology Transfer: From LBJ Space Center	9,359
43.002	Technology Transfer: From Texas A&M	122,135
	TOTAL	**$202,781**

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

45.024	Promotion of the Arts-Grants to Organizations and Individuals	15,232
45.025	Promotion of the Arts-Partnership Agreements	579,935
45.026	Promotion of the Arts-Leadership Initiatives	6,184
45.129	Promotion of the Humanities-Federal/State Partnership: From MT Comm. of the Hum.	23,703
45.149	Promotion of the Humanities Division of Preservation and Access: From Oregon State Univ.	23,891
45.162	Promotion of the Humanities - Teaching and Learning Resources and Curriculum Development: From MT Comm. of the Hum.	587
45.301	Museum for America Grants	727,164
45.312	National Leadership Grants	86,623
45.313	Librarians for the 21st Century	11,145
45.999	Miscellaneous Grants	4,589
	TOTAL	**$1,479,053**

NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants	26,772
47.050	Geosciences	(33,702)
47.070	Computer and Information Science and Engineering	9,469
47.074	Biological Sciences	122,150
47.075	Social, Behavioral, and Economic Sciences	89,088
47.076	Education and Human Resources	2,495,142
47.076	Education and Human Resources: From City Univ. of New York	30,719

			AMOUNT
47.076	Education and Human Resources: From Assoc. of Amer. Colleges		525
		TOTAL	**$2,740,163**

SMALL BUSINESS ADMINISTRATION

59.037	Small Business Development Center		643,673
59.046	Microloan Program		79,247
		TOTAL	**$722,920**

DEPARTMENT OF VETERANS AFFAIRS

64.010	VETERANS NURSING HOME CARE		22,415
64.011	Veterans Dental Care		20
64.014	Veterans State Domiciliary Care		59,081
64.015	Veterans State Nursing Home Care		2,848,665
64.120	Post-Vietnam Era Veterans' Educational Assistance		147
64.124	All-Volunteer Force Educational Assistance		68,520
64.203	State Cemetery Grants		17,062
		TOTAL	**$3,015,910**

ENVIRONMENTAL PROTECTION AGENCY

66.418	Construction Assistance for Wastewater Treatment Works	(964)
66.433	State Underground Water Source Protection	106,876
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	22,910
66.454	Water Quality Management Planning	196,241
66.458	Capitalization Grants For State Revolving Funds	17,891,221
66.460	Nonpoint Source Implementation Grants	2,310,788
66.461	Wetland Program Grants	258,780
66.463	Water Quality Cooperative Agreements	37,123
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	69,785
66.468	Capitalization Grants for Drinking Water State Revolving Fund	5,666,704
66.471	State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	152,480
66.474	Water Protection Grants to the States	137,342
66.500	Environmental Protection - Consolidated Research	8,708
66.500	Environmental Protection - Consolidated Research: From Colorado State Univ.	80,258

		AMOUNT
66.605	Performance Partnership Grants	6,414,884
66.606	Surveys, Studies, Investigations and Special Purpose Grants	23,359
66.607	Training and Fellowships for the Environmental Protection Agency	7,061
66.608	Environmental Information Exchange Network Grant Program	57,580
66.708	Pollution Prevention Grants Program	107,824
66.711	Environmental Justice through Pollution Prevention Grants	5,798
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements	981,826
66.805	Leaking Underground Storage Tank Trust Fund Program	747,574
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	746,558
66.811	Brownfield Pilots Cooperative Agreements	52,188
66.817	State and Tribal Response Program Grants	246,795
66.950	Environmental Education and Training Program: From Univ. of Wisconsin	18,256
66.951	Environmental Education Grants	72,176
	TOTAL	**$36,420,131**

DEPARTMENT OF ENERGY

81.041	State Energy Program	388,366
81.042	Weatherization Assistance for Low-Income Persons	2,550,936
81.049	Office of Science Financial Assistance Program: From Inland NW Res. Alliance	343,563
81.086	Conservation Research and Development	2,395,873
81.104	Office of Environmental Cleanup and Acceleration: From MSE Inc.	300,580
81.116	Science and Engineering Training to Support Diversity-Related Programs: From Inland NW Res. Alliance	157,542
81.119	State Energy Program Special Projects	51,589
	TOTAL	**$6,188,449**

DEPARTMENT OF EDUCATION

84.002	Adult Education - State Grant Program	1,431,563
84.010	Title I Grants To Local Education Agencies	37,487,341
84.011	Migrant Education - State Grant Program	847,717
84.013	Title I Program for Neglected and Delinquent Children	184,646
84.015	National Resource Centers and Fellowships Program for Language and Area or Language: From Univ. of Colorado	28,998
84.016	Undergraduate International Studies and Foreign Language	57,263

		AMOUNT
84.021	International: Overseas-Group Projects Abroad	34,080
84.048	Vocational Education - Basic Grants to States	5,523,932
84.069	Leveraging Educational Assistance Partnership	396,389
84.083	Women's Educational Equity Act Program	146,769
84.116	Fund for the Improvement of Postsecondary Education	1,556,715
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	10,593,528
84.129	Rehabilitation Long-Term Training	87,176
84.133	National Institute on Disability and Rehabilitation Research	50,628
84.133	National Institute on Disability and Rehabilitation Research: From Brain Injury Assoc.	59,888
84.153	Business and International Education	80,801
84.162	Immigrant Education	28
84.169	Independent Living-State Grants	272,238
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	300,331
84.181	Special Education-Grants for Infants and Families with Disabilities	1,966,448
84.184	Safe and Drug-Free Schools and Communities - National Programs	347,840
84.185	Byrd Honors Scholarships	159,000
84.186	Safe and Drug-Free Schools and Communities - State Grants	2,153,493
84.187	Supported Employment Services for Individuals with Severe Disabilities	180,493
84.195	Bilingual Education - Professional Development	842,982
84.196	Education for Homeless Children and Youth	210,797
84.213	Even Start - State Educational Agencies	1,006,433
84.215	Fund for Improvement of Education	192,042
84.215	Fund for Improvement of Education: From Golden Triangle	700
84.215	Fund for Improvement of Education: From Anaconda School Dist.	11,531
84.224	State Grants for Assistive Technology	332,777
84.234	Projects with Industry	116,378
84.235	Rehabilitation Services Demonstration and Training Programs	674,024
84.243	Tech-Prep Education	526,774
84.256	Freely Associated States - Education Grant Program: From Univ. of Calf.	41,862
84.264	Rehabilitation Training-Continuing Education	103,425
84.265	Rehabiliation Training-State Vocational Rehabilitation Unit In-Service	54,358
84.281	Eisenhower Professional Development State Grants	273,237
84.287	Twenty-First Century Community Learning Centers	2,884,400

		AMOUNT
84.295	Ready-To-Learn Television: From PBS	73,648
84.298	State Grants for Innovative Programs	1,829,760
84.299	Indian Education - Special Programs	316,661
84.303	Technology Innovation Challenge Grants	179,604
84.303	Technology Innovation Challenge Grants: From Polson Public Schools	455,989
84.314	Even Start - Statewide Family Literacy Program	57,599
84.318	Education Technology State Grants	2,898,190
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	752,607
84.324	Special Education-Research and Innovation to Improve Services and Results for Children	556,990
84.325	Special Education - Personnel Preparation to Improve Services and Results for Children	214,455
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results	162,203
84.330	Advanced Placement Program	285,961
84.331	Grants to States for Incarcerated Youth Offenders	40,162
84.332	Comprehensive School Reform Demonstration	807,063
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	2,226,262
84.335	Child Care Access Means Parents in School	33,347
84.338	Reading Excellence	4,896,889
84.341	Community Technology Centers	19,842
84.342	Preparing Tomorrow's Teachers to Use Technology	35,712
84.346	Vocational Education - Occupational and Employment Information State Grants	127,942
84.348	Title I Accountability Grants	64,972
84.352	School Renovation Grants	316,856
84.357	Reading First State Grants	2,042,092
84.358	Rural Education	543,976
84.360	Dropout Prevention Programs	239,434
84.365	English Language Acquisition Grants	602,770
84.366	Mathematics and Science Partnerships	45,488
84.367	Improving Teacher Quality State Grants	13,213,256
84.369	Grants for State Assessments and Related Activities	2,992,072
84.999	Miscellaneous Non-Major Grants	148,522
93.364	Nursing Student Loan Program	6,517
	TOTAL	$107,405,866

		AMOUNT
SPECIAL EDUCATION CLUSTER		
84.027	Special Education - Grants to States	27,747,063
84.173	Special Education - Preschool Grants	1,257,084
	TOTAL	**$29,004,147**
STUDENT FINANCIAL ASSISTANCE CLUSTER		
84.007	Federal Supplemental Educational Opportunity Grants	1,913,102
84.032	Federal Family Education Loans	1,829,421
84.033	Federal Work - Study Program	2,416,656
84.038	Federal Perkins Loan Program - Federal Capital Contributions	566,190
84.063	Federal Pell Grant Program	34,738,054
84.268	Federal Direct Student Loans	62,582
93.364	Nursing Student Loan Program	172,373
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	398,243
	TOTAL	**$42,096,621**
TRIO CLUSTER		
84.042	TRIO-Student Support Services	1,133,518
84.044	TRIO-Talent Search	872,238
84.047	TRIO-Upward Bound	1,701,629
84.066	TRIO-Educational Opportunity Centers	577,438
84.217	McNair Post - Baccalaureate Achievement	220,442
	TOTAL	**$4,505,265**
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants: From Pacific Lutheran Univ.	55,844
	TOTAL	**$55,844**
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.003	Public Health and Social Services Emergency Fund	1,114,811
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	27,249
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	66,141
93.043	Special Programs for the Aging-Title III, Part D -DiseasePrevention/Health Promotion Serv	108,496
93.048	Special Programs for the Aging-Title IV and Title II - Discretionary Projects	152,718

		AMOUNT
93.052	Nation Family Caregiver Support Program	834,369
93.103	Food and Drug Administration Research	945
93.110	Maternal and Child Health Federal Consolidated Programs	222,071
93.116	Project Grant and Cooperative Agreements for Tuberculosis Control Program	218,981
93.127	Emergency Medical Services for Children	164,115
93.130	Primary Care Services-Resource Coordination and Development	302,022
93.150	Projects for Assistance in Transition from Homelessness (PATH)	301,397
93.157	Centers of Excellence	226,760
93.161	Health Program for Toxic Substances and Disease Registry	583,426
93.184	Disabilities Prevention	283,108
93.217	Family Planning Services	1,969,376
93.230	Consolidated Knowledge Development and Application Program	413,533
93.234	Traumatic Brain Injury-State Demonstration Grant Program	140,430
93.235	Abstinence Education	235,498
93.238	Cooperative Agreements/ State Treatment Outcomes and Performance Pilot Studies Enhancement	171,432
93.241	State Rural Hospital Flexibility Program	653,369
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	484,674
93.251	Universal Newborn Hearing Screening	78,755
93.256	State Planning Grant - Health Care Access for the Uninsured	225,198
93.259	Rural Access to Emergency Devices Grant	196,445
93.263	Occupational Safety and Health Training Grant	61,484
93.268	Immunization Grant	3,941,384
93.282	Mental Health National Research Service Awards for Research Training	41,228
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	10,924,592
93.288	National Health Service Corps Scholarship Program	(94)
93.301	Small Rural Hospital Improvement Grants	381,901
93.359	Nurse Education, Practice and Retention Grants	159,903
93.375	Minority Biomedical Research Support	937,500
93.389	National Center for Research Resources: From Univ. of Wyoming	20,833
93.556	Promoting Safe and Stable Families	953,436
93.558	Temporary Assistance for Needy Families (TANF)	31,186,103
93.563	Child Support Enforcement	8,670,872

		AMOUNT
93.566	Refugee and Entrant Assistance-State Administered Programs	97,928
93.568	Low Income Home Energy Assistance	12,190,840
93.569	Community Services Block Grant	3,051,957
93.570	Community Services Block Grant - Discretionary Awards: From National Youth Sports	84,931
93.576	Refugee and Entrant Assistance-Discretionary Grants	55,832
93.586	State Court Improvement Program	75,658
93.590	Community-Based Family Resource and Support Grants	157,124
93.597	Grants to States for Access and Visitation Programs	101,516
93.599	Chafee Education and Training Vouchers Program (ETV)	34,779
93.600	Head Start	157,270
93.601	Child Support Enforcement Demonstrations and Special Projects	129,006
93.603	Adoption Incentive Payments	(4,296)
93.612	Native American Programs	8,240
93.617	Voting Access for Individuals with Disabilities - Grants to States	93,462
93.630	Developmental Disabilities Basic Support and Advocacy Grants	194
93.630	Developmental Disabilities Basic Support and Advocacy Grants: From MT Ccl on Dev. Disab.	23,279
93.630	Developmental Disabilities Basic Support and Advocacy Grants: From Dev. Disabled Council	393,594
93.631	Developmental Disabilities Projects of National Significance	65,874
93.632	University Centers for Excellence in Developmental Disabilities Ed., Research, and Service	417,255
93.643	Children's Justice Grants to States	75,603
93.645	Child Welfare Service-State Grant	891,237
93.658	Foster Care Title IV-E	10,537,496
93.659	Adoption Assistance	4,150,823
93.667	Social Services Block Grant	7,228,825
93.669	Child Abuse and Neglect State Grants	72,273
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters	827,866
93.674	Chafee Foster Care Independent Living	452,280
93.767	State Children's Insurance Program	13,639,691
93.822	Health Careers Opportunities Program	317,048
93.822	Health Careers Opportunities Program: From Univ. of Washington	21,082
93.824	Basic/Core Area Health Education Centers: From Univ. of Washington	32,517
93.847	Diabetes, Endocrinology and Metabolism Research	13,170

		AMOUNT
93.912	Rural Health Outreach-Rural Network Developmental Program: From Univ. of Washington	15,049
93.913	Grants to States for Operation of Offices of Rural Health	178,816
93.917	HIV Care Formula Grants	795,951
93.919	Cooperative Agreements for State-Based Breast and Cervical Cancer Early Detection	(1,319)
93.938	Cooperative Agreements to Support School Health Programs - Prevent the Spread of HIV	241,097
93.940	HIV Prevention Activities-Health Department Based	1,378,126
93.944	HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	68,879
93.945	Assistance Program for Chronic Disease Prevention	836,823
93.958	Block Grants for Community Mental Health Services	324,114
93.959	Block Grants for Prevention and Treatment of Substance Abuse	6,215,093
93.969	Geriatric Education Centers	288,123
93.970	Health Professions Recruitment Program for Indians	472,217
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	297,169
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	650,071
93.991	Preventive Health and Health Services Block Grant	824,898
93.994	Maternal and Child Health Services Block Grant to the States	2,511,408
93.999	Miscellaneous Non-Major Grants	411,439
93.999	Miscellaneous Non-Major Grants: From Univ. of Washington	40,013
93.999	Miscellaneous Non-Major Grants: From Univ. of Idaho	(45)
93.999	Miscellaneous Non-Major Grants: From St. James Healthcare	15,147
	TOTAL	**$137,411,884**
AGING CLUSTER		
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,834,829
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,784,391
	TOTAL	**$4,619,220**
CHILD CARE CLUSTER		
93.575	Child Care and Development Block Grant	9,008,841
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	8,435,941
	TOTAL	**$17,444,782**

			AMOUNT
CONSOLIDATED HEALTH CENTERS CLUSTER			
93.224	Community Health Centers: From Partnership Health Center		8,865
		TOTAL	**$8,865**
MEDICAID CLUSTER			
93.775	State Medicaid Fraud Control Units		394,466
93.777	State Survey and Certification of Health Care Providers and Suppliers		2,107,655
93.778	Medical Assistance Program		516,532,595
		TOTAL	**$519,034,716**
CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
94.003	State Commissions		144,169
94.004	Learn and Serve America-School and Community Based Programs: From Corp. for National Serv.		119,969
94.005	Learn & Serve America-Higher Education		242,253
94.005	Learn & Serve America-Higher Education: From Brown Univ.		42,114
94.006	AmeriCorps		2,038,004
94.007	Planning and Program Development Grants		52,803
94.009	Training and Technical Assistance		92,455
94.013	Volunteers in Service to America: From Corp. for National Serv.		302,245
		TOTAL	**$3,034,012**
SOCIAL SECURITY ADMINISTRATION			
96.007	Social Security Research and Demonstration		63,507
96.008	Social Security-Benefits Planning, Assistance, and Outreach Program		61,261
		TOTAL	**$124,768**
DISABILITY INSURANCE/SSI CLUSTER			
96.001	Social Security - Disability Insurance		4,517,955
		TOTAL	**$4,517,955**
HOMELAND SECURITY			
97.004	State Domestic Preparedness Equipment Support Program		4,626,654
97.005	State and Local Homeland Security Training Program		61,563
97.016	Reimbursement for Firefighting on Federal Property		346,424
97.021	Hazardous Materials Assistance Program		15,833

			AMOUNT
97.023	Community Assistance Program State Support Services Element		83,126
97.029	Flood Mitigation Assistance		40,150
97.036	Public Assistance Grants		96,119
97.038	First Responder Anti-Terrorism Training Assistance: From Butte Silverbow County		2,742
97.039	Hazard Mitigation Grant		273,720
97.041	National Dam Safety Program		133,007
97.042	Emergency Management Performance Grants		1,509,209
97.046	Fire Management Assistance Grant		32,122,151
97.047	Pre-Disaster Mitigation		171,040
97.051	State and Local All Hazards Emergency Operations Planning		246,708
97.052	Emergency Operations Centers		47,897
97.053	Citizen Corps		23,178
97.054	Community Emergency Response Teams		133,818
97.999	Miscellaneous Non-Major Grants		69,707
		TOTAL	$40,003,046

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

98.005	Institutional Support Assistance (ISA): From Agency for Inter. Dev..		2,075
		TOTAL	$2,075

OTHER FEDERAL

07.000	National Drug Control Program		28,942
		TOTAL	$28,942

RESEARCH AND DEVELOPMENT CLUSTER

DEPARTMENT OF AGRICULTURE

		AMOUNT
10.001	Agricultural Research-Basic and Applied Research	334,688
10.025	Plant and Animal Disease, Pest Control, and Animal Care	174,042
10.200	Grants for Agricultural Research, Special Research Grants	3,722,413
10.200	Grants for Agricultural Research, Special Research Grants: From Kansas State	410,699
10.200	Grants for Agricultural Research, Special Research Grants: From MT Microbial Products	640
10.200	Grants for Agricultural Research, Special Research Grants: From N. Mexico Univ.	73,165
10.200	Grants for Agricultural Research, Special Research Grants: From N. Dakota State	46,962
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State Univ.	49,852
10.200	Grants for Agricultural Research, Special Research Grants: From Salish Kootenai College	94
10.200	Grants for Agricultural Research, Special Research Grants: From S. Dakota St. Univ.	9,113
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Calf. Davis	15,147
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State Unv.	108,286
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State Unv.	14,491
10.200	Grants for Agricultural Research, Special Research Grants: From Washington State U.	19,804
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Washington	5,157
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Idaho	141,528
10.202	Cooperative Forestry Research	32,558
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	2,022,071
10.206	Grants for Agricultural Research-Competitive Research Grants	1,474,098
10.206	Grants for Agricultural Research-Competitive Research Grants: From Fort Peck C.C.	10,144
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Wyoming	14,191
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ of Wisconsin	16,722
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ of Missouri	15,024
10.212	Small Business Innovation Research: From Envir. & Pertro Consult.	1,770

		AMOUNT
10.215	Sustainable Agriculture Research and Education: From Utah State Unv.	35,236
10.217	Higher Education Challenge Grants	141,913
10.224	Fund for Rural America-Research, Education, and Extension Activities: From Univ. of Minnesota	102,961
10.226	Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants: From Dull Knife C.C.	6,617
10.227	1994 Institutions Research Program: From Dull Knife C.C.	(5,152)
10.227	1994 Institutions Research Program: From Fort Peck C.C.	17,029
10.250	Agricultural and Rural Economic Research	65,515
10.302	Initiative for Future Agriculture and Food Systems	626,254
10.302	Initiative for Future Agriculture and Food Systems: From N. Dakota State	57,818
10.302	Initiative for Future Agriculture and Food Systems: From Univ. of Calf. Davis	146,182
10.302	Initiative for Future Agriculture and Food Systems: From Utah State Unv.	125,014
10.302	Initiative for Future Agriculture and Food Systems: From University of Wyoming	25,000
10.303	Integrated Programs	82,113
10.303	Integrated Programs: From Colorado State Univ.	95,595
10.303	Integrated Programs: From Univ. of Calf. Davis	10,748
10.304	Homeland Security - Agricultural: From Kansas State	13,803
10.450	Crop Insurance	22,218
10.450	Crop Insurance: From Fort Peck C.C.	54,143
10.450	Crop Insurance: From Univ. of Wyoming	30,612
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	4,884
10.500	Cooperative Extension Service	100,774
10.500	Cooperative Extension Service: From Fort Peck C.C.	4,309
10.500	Cooperative Extension Service: From MT Grain Growers	584
10.500	Cooperative Extension Service: From Utah State Unv.	7,551
10.500	Cooperative Extension Service: From Univ. of Tennessee	2,846
10.500	Cooperative Extension Service: From Washington State U.	11,829
10.500	Cooperative Extension Service: From Univ. of Wyoming	1,163
10.500	Cooperative Extension Service: From Michigan State	(178)
10.567	Food Distribution Program on Indian Reservations	21,232
10.652	Forestry Research	3,830,323
10.652	Forestry Research: From Nat. Fish & Wildlife Fd.	41,057

		AMOUNT
10.652	Forestry Research: From A. Carhart	30,280
10.652	Forestry Research: From Colorado State Univ.	1,074
10.652	Forestry Research: From A. Carhart	16,650
10.664	Cooperative Forestry Assistance	96,088
10.672	Rural Development, Forestry, and Communities	6,968
10.678	Forest Sewardship Program	29,618
10.769	Rural Business Enterprise Grants: From Kansas State	932
10.901	Resource Conservation and Development: From Dull Knife C.C.	425
10.901	Resource Conservation and Development: From Nat Fish & Wlf. Found.	58,639
10.902	Soil and Water Conservation	42,135
10.912	Environmental Quality Incentives Program	6,971
10.914	Wildlife Habitat Incentive Program	4,074
10.960	Technical Agricultural Assistance: From Intern. Livestock Res.	94
10.961	Scientific Cooperation and Research	117,171
	TOTAL	$14,803,771

DEPARTMENT OF COMMERCE

11.112	Export Promotion Market Development Cooperation	148,208
11.302	Economic Development Support for Planning Organizations	19,999
11.303	Economic Development-Technical Assistance	83,521
11.312	Research and Evaluation Program	712
11.427	Fisheries Development & Utilization Research and Development Grants	26,431
11.431	Climate and Atmospheric Research	15,269
11.432	Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes: From Res. Corp - U. of Hawaii	2,722
11.433	Marine Fisheries Initiative	322
11.439	Marine Mammal Data Program	24,575
11.440	Environmental Sciences, Applications, Data, and Education	82,050
11.460	Special Oceanic and Atmospheric Projects	18,084
11.463	Habitat Conservation	4,879
11.478	Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	17,986
11.552	Technology Opportunities Program	285,355

			AMOUNT
11.611	Manufacturing Extension Partnership		464,947
		TOTAL	**$1,195,060**
DEPARTMENT OF DEFENSE			
12.002	Procurement Technical Assistance For Business Firms: From Big Sky Econ. Dev.		2,082,564
12.100	Aquatic Plant Control		131,567
12.114	Collaborative Research and Development		81,776
12.114	Collaborative Research and Development: From Univ. of Alabama		56,435
12.114	Collaborative Research and Development: From Nat. Research Council		2,088
12.300	Basic and Applied Scientific Research		1,808,641
12.300	Basic and Applied Scientific Research: From Scientific Materials		619,729
12.300	Basic and Applied Scientific Research: From Space & Naval War.		1,696
12.300	Basic and Applied Scientific Research: From Univ. of Colorado		(4,220)
12.300	Basic and Applied Scientific Research: From Leonardo Technologies		2,932
12.420	Military Medical Research and Development		491,824
12.420	Military Medical Research and Development: From Univ. of Nebraska		55,939
12.431	Basic Scientific Research		794,412
12.431	Basic Scientific Research: From Univ. of Chicago		184,214
12.630	Basic, Applied, and Advanced Research in Science and Engineering		896,792
12.800	Air Force Defense Research Sciences Program		228,438
12.902	Information Security Grant Program: From Univ. of Colorado		78,138
12.910	Reseach and Technology Development		926,184
12.999	Miscellaneous Non-Major Grants: From ID Nat. Eng.& Env. Lab		2,080
		TOTAL	**$8,441,229**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
14.246	Community Development Block Grants/Brownfields Economic Development Initiative		71,747
14.901	Healthy Homes Demonstration Grants		59,887
		TOTAL	**$131,634**
DEPARTMENT OF THE INTERIOR			
15.034	Agriculture on Indian Lands		7,500
15.130	Indian Education - Assistance to Schools		7,786

		AMOUNT
15.214	Non-Sale Disposals of Mineral Material	1,840
15.222	Cooperative Inspection Agreements with States and Tribes	143,705
15.224	Cultural Resource Management	767,244
15.225	Recreation Resource Management	76,485
15.228	Wildland Urban Interface Community and Rural Fire Assistance	68,240
15.252	Abandoned Mine Land Reclamation (AMLR) Program	115,921
15.299	Miscellaneous Non-Major Grants	1,463,887
15.504	Water Reclamation and Water Reuse Program	120,008
15.608	Fish and Wildlife Management Assistance	497,070
15.611	Wildlife Restoration: From Idaho Fish and Game	7,005
15.615	Cooperative Endangered Species Conservation Fund	8,046
15.617	Wildlife Conservation and Appreciation	32,722
15.634	State Wildlife Grants	9,164
15.634	State Wildlife Grants: From N. Dakota Fish & Game	726
15.635	Neotropical Migratory Bird Conservation	58,410
15.699	USDI/Fish & Wildlife Service	141,699
15.805	Assistance to State Water Resources Research Institutes	38,915
15.808	U.S. Geological Survey-Research and Data Acquisition	1,517,136
15.808	U.S. Geological Survey-Research and Data Acquisition: From Battelle	1,652
15.808	U.S. Geological Survey-Research and Data Acquisition: From University of Idaho	3,342
15.810	National Cooperative Geologic Mapping Program	205,821
15.811	Gap Analysis Program	55,382
15.812	Cooperative Research Units Program	933,592
15.899	USDI/Geological Survey: From Great Basin Bird Observ.	4,316
15.910	National Natural Landmarks Program	736,776
15.912	National Historic Landmark	35,825
15.915	Technical Preservation Services	78,545
15.919	Urban Park and Recreation Recovery Program	16,996
15.921	Rivers, Trails and Conservation Assistance: From Univ. of Illinois	182,273
15.923	National Center for Preservation Technology and Training	173,082
15.999	Miscellaneous Non-Major Grants	397,080

		AMOUNT
15.DAM	Soil, Water, & Air Resources	11,869
	TOTAL	**$7,920,060**
DEPARTMENT OF JUSTICE		
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	29,806
16.609	Community Prosecution and Project Safe Neighborhoods	85,551
	TOTAL	**$115,357**
DEPARTMENT OF LABOR		
17.249	Employment Services and Job Training: Pilot and Demonstration Programs	100,687
	TOTAL	**$100,687**
DEPARTMENT OF STATE		
19.401	Educational Exchange - University Lecturers (Professors) and Research Scholars	91,659
19.424	Educational Partnerships Program	82,473
	TOTAL	**$174,132**
DEPARTMENT OF TRANSPORTATION		
20.106	Airport Improvement Program: From G5 Technologies	38,055
20.106	Airport Improvement Program: From Peccia & Associates	121,274
20.205	Highway Planning and Construction	100,000
20.301	Railroad Safety	21,327
20.505	Federal Transit - Metropolitan Planning Grants	(3,194)
20.600	State and Community Highway Safety	88,964
20.701	University Transportation Centers Program	2,094,252
20.701	University Transportation Centers Program: From Calf. Dept. of Transport.	255,790
20.701	University Transportation Centers Program: From Univ. of Idaho	17,673
20.701	University Transportation Centers Program: From Univ. of N. Dakota	2,274
	TOTAL	**$2,736,415**
FEDERAL MEDIATION AND CONCILIATION SERVICE		
34.001	Employment Discrimination - Title VII of the Civil Rights Act of 1964	8,791
	TOTAL	**$8,791**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.000	NASA	3,487,856

		AMOUNT
43.000	NASA: From Calf. Inst. for Tech.	64,561
43.000	NASA: From Univ. of Idaho	42,477
43.000	NASA: From Umatilla Tribe	50,437
43.000	NASA: From MT Aeropspace Dev. Auth.	91,422
43.001	Aerospace Education Services Program	4,732,319
43.001	Aerospace Education Services Program: From ADVR Inc.	25,354
43.001	Aerospace Education Services Program: From Univ. of Calf. Berkeley	213,255
43.001	Aerospace Education Services Program: From Lockheed Martin	130,145
43.001	Aerospace Education Services Program: From Univ. of N. Dakota	193,541
43.001	Aerospace Education Services Program: From Salish Kootenai College	6,263
43.001	Aerospace Education Services Program: From Smithsonian Astrophy.	52,560
43.001	Aerospace Education Services Program: From SW Research Inst.	927
43.001	Aerospace Education Services Program: From Univ. of Washington	28,338
43.002	Technology Transfer	630,175
43.002	Technology Transfer: From Aerodyne Research Inc.	21,903
43.002	Technology Transfer: From Carnegie Institute	57,028
43.002	Technology Transfer: From Calf. State Univ.	24,643
	TOTAL	**$9,853,204**
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES		
45.024	Promotion of the Arts-Grants to Organizations and Individuals: From DANCE USA	7,499
45.149	Promotion of the Humanities Division of Preservation and Access	19,622
	TOTAL	**$27,121**
NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants: From ADVR Inc.	936,147
47.041	Engineering Grants: From Univ. of California	20,864
47.041	Engineering Grants: From Micro Powder Sol.	32,050
47.041	Engineering Grants: From PFM Manufacturing	70,295
47.049	Mathematical and Physical Sciences	2,469,709
47.049	Mathematical and Physical Sciences: From Ctr for Adaptive Optics	35,525
47.049	Mathematical and Physical Sciences: From Nat. Optical Astronom.	133,663
47.049	Mathematical and Physical Sciences: From Univ. of Missouri	30

		AMOUNT
47.049	Mathematical and Physical Sciences: From Univ. of Missouri	231,427
47.049	Mathematical and Physical Sciences: From Univ. of Missouri	13,481
47.050	Geosciences	1,573,191
47.050	Geosciences: From MIT	30,331
47.050	Geosciences: From Ohio Univ.	82,895
47.070	Computer and Information Science and Engineering	334,850
47.070	Computer and Information Science and Engineering: From Salish Kootenai Coll.	22,304
47.074	Biological Sciences	4,886,061
47.074	Biological Sciences: From Univ. of Calf. Davis	111,129
47.074	Biological Sciences: From Idaho State Univ.	51,621
47.074	Biological Sciences: From Duke University	14,073
47.075	Social, Behavioral, and Economic Sciences	305,960
47.076	Education and Human Resources	4,209,377
47.076	Education and Human Resources: From Coll. of Will. & Mary	46,026
47.076	Education and Human Resources: From Ithaca College	203,950
47.076	Education and Human Resources: From Nat. Sci. Teach. Assc.	337,286
47.076	Education and Human Resources: From Univ. of Corp. for Atm.	(230)
47.076	Education and Human Resources: From City Univ. of New York	50,799
47.078	Polar Programs	391,734
47.078	Polar Programs: From San Diago State	83,960
47.999	Miscellaneous Non-Major Grants: From Assc. of Amer. Geologists	4,346
	TOTAL	**$16,682,854**
SMALL BUSINESS ADMINISTRATION		
59.051	New Markets Venture Capital	3,369
	TOTAL	**$3,369**
ENVIRONMENTAL PROTECTION AGENCY		
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	9,755
66.454	Water Quality Management Planning	(88)
66.460	Nonpoint Source Implementation Grants	835,753
66.460	Nonpoint Source Implementation Grants: From Blackfoot Challenge	2,535
66.460	Nonpoint Source Implementation Grants: From Sheridan County	5,376

		AMOUNT
66.460	Nonpoint Source Implementation Grants: From Lower Musselshell Cons.	3,134
66.460	Nonpoint Source Implementation Grants: From Park County	16,145
66.460	Nonpoint Source Implementation Grants: From Flathead Basin Comm.	7,390
66.460	Nonpoint Source Implementation Grants: From City of Belt	64,029
66.460	Nonpoint Source Implementation Grants: From Yellowstone Valley Cons.	26,257
66.460	Nonpoint Source Implementation Grants: From Liberty County Cons. Dt.	20,304
66.460	Nonpoint Source Implementation Grants: From Pondera County Cons. Dt.	36,737
66.500	Environmental Protection - Consolidated Research	1,319,979
66.509	Science To Achieve Results (STAR) Program: From Temple Univ.	43,383
66.605	Performance Partnership Grants: From Lincoln County	23,114
66.606	Surveys, Studies, Investigations and Special Purpose Grants	1,082,211
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From CH2M Hill	54,912
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From Univ. of Illinois	50,592
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From Powder River	9,477
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From Rosebud Conse	15,781
66.607	Training and Fellowships for the Environmental Protection Agency	812
66.608	Environmental Information Exchange Network Grant Program	20,000
66.708	Pollution Prevention Grants Program	17,369
66.714	Pesticide Environmental Stewardship - Regional Grants	4,811
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	218,257
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements: From CDM Fed. Prg. Corp.	223,240
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements: From CH2M Hill	36,419
66.806	Superfund Technical Assistance Grants for Citizen Groups at Priority Sites	10,977
66.808	Solid Waste Management Assistance	31,533
66.951	Environmental Education Grants	16
	TOTAL	$4,190,210

DEPARTMENT OF ENERGY

81.022	Used Energy-Related Laboratory Equipment Grants: From MSE Inc.	41,342
81.049	Office of Science Financial Assistance Program	977,706
81.049	Office of Science Financial Assistance Program: From Inland NW Res. Alliance	545,898

		AMOUNT
81.049	Office of Science Financial Assistance Program: From Washington State U.	202,163
81.049	Office of Science Financial Assistance Program: From Betchel	11,234
81.049	Office of Science Financial Assistance Program: From Princeton Univ.	(1,042)
81.049	Office of Science Financial Assistance Program: From ID Nat. Engin.& Env. Lab	1,952
81.049	Office of Science Financial Assistance Program: From San Diago State	62,105
81.049	Office of Science Financial Assistance Program: From Sandia Corp.	36,076
81.049	Office of Science Financial Assistance Program: From Univ. of Wyoming	44,473
81.057	University Coal Research	437,795
81.064	Office of Scientific and Technical Information: From Univ. of Calf. Lawernce	12,916
81.079	Regional Biomass Energy Programs	42,396
81.087	Renewable Energy Research and Development	127,104
81.087	Renewable Energy Research and Development: From Battelle	18,863
81.087	Renewable Energy Research and Development: From Betchel	12,373
81.087	Renewable Energy Research and Development: From Big Sky Econ. Dev.	224,104
81.087	Renewable Energy Research and Development: From Fuel Cell Enery Inc.	117,688
81.087	Renewable Energy Research and Development: From Pacific NW Labor.	861,832
81.087	Renewable Energy Research and Development: From Sandia Inc.	277,081
81.089	Fossil Energy Research and Development: From Betchel	1,136
81.089	Fossil Energy Research and Development: From Ohio Univ.	39,396
81.089	Fossil Energy Research and Development: From Virginia Polytech Inst.	159,467
81.104	Office of Environmental Cleanup and Acceleration	124,021
81.104	Office of Environmental Cleanup and Acceleration: From MSE Inc.	354,549
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training: From INEEL	84,509
81.119	State Energy Program Special Projects	305,534
81.999	Miscellaneous Non-Major Grants: From Resonon Inc.	23,254
81.R&D	Miscellaneous Research and Development: From Betchel	20,654
	TOTAL	**$5,166,579**

DEPARTMENT OF EDUCATION

84.042	TRIO-Student Support Services	352,474
84.116	Fund for the Improvement of Postsecondary Education	386,538
84.133	National Institute on Disability and Rehabilitation Research	579,521

		AMOUNT
84.133	National Institute on Disability and Rehabilitation Research: From Univ. of Kansas	13,739
84.215	Fund for Improvement of Education: From Bozeman School District	162,644
84.215	Fund for Improvement of Education: From Anaconda School Dist.	1,493
84.336	Teacher Quality Enhancement Grants: From Nat. FFA Organ.	1,412
84.350	Transition to Teaching	652,867
	TOTAL	**$2,150,688**

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers: From MT Trans. Partnership	107,198
93.113	Biological Response to Environmental Health Hazards	919,035
93.115	Biometry and Risk Estimation Health Risks from Environmental Exposures: From Harvard College	384,701
93.121	Oral Diseases and Disorders Research	171,407
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention: From Missoula Indian Center	774
93.136	Injury Prevention and Control Research and State and Community Based Programs	369,783
93.173	Research Related to Deafness and Communication Disorders	115,896
93.173	Research Related to Deafness and Communication Disorders: From Allegheny-Singer Res.	125,467
93.173	Research Related to Deafness and Communication Disorders: From Univ. of Calf. S.D.	6
93.173	Research Related to Deafness and Communication Disorders: From Univ. of Texas	17,472
93.178	Nursing Workforce Diversity	230,815
93.184	Disabilities Prevention	401,365
93.206	Human Health Studies Applied Research and Development: From Assoc. of Occup. & Envir.	11
93.211	Telehealth Network Grants	135,686
93.213	Research and Training in Complementary and Alternative Medicine	4,338
93.226	Research on Healthcare Costs, Quality and Outcomes	335,461
93.242	Mental Health Research Grants	405,492
93.242	Mental Health Research Grants: From Behavioral Tech. Group	19,363
93.247	Advanced Education Nursing Grant Program: From Oregon Health Sci.	381,317
93.263	Occupational Safety and Health Training Grant	1,029
93.273	Alcohol Research Programs	82,512
93.279	Drug Abuse Research Programs	51,880

		AMOUNT
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	817,943
93.287	Bioengineering Research	186,736
93.287	Bioengineering Research: From Scripps Institute	345,924
93.287	Bioengineering Research: From Sequoia Scient. Inc.	128,246
93.301	Small Rural Hospital Improvement Grants	83,240
93.333	Clinical Research: From Mount Sinai School	(17)
93.358	Advanced Education Nursing Traineeships	27,079
93.361	Nursing Research	401,798
93.361	Nursing Research: From American Physiol. Society	3,289
93.361	Nursing Research: From Univ. of Idaho	37,987
93.361	Nursing Research: From John Hopkins Univ.	3,784
93.389	National Center for Research Resources	8,479,842
93.389	National Center for Research Resources: From Ligocyte Pharmaceuticals	8,462
93.390	Academic Research Enhancement Award	23,342
93.393	Cancer Cause and Prevention Research: From Mount Sinai School	86,721
93.395	Cancer Treatment Research: From Vanderbilt Univ.	350,116
93.396	Cancer Biology Research	106,349
93.398	Cancer Research Manpower	76,370
93.612	Native American Programs	9,390
93.647	Social Services Research and Demonstration	763,226
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	780,973
93.822	Health Careers Opportunities Program: From Univ. of Washington	42,466
93.824	Basic/Core Area Health Education Centers: From Univ. of Washington	82,636
93.837	Heart and Vascular Diseases Research	268,395
93.838	Lung Diseases Research	621,067
93.838	Lung Diseases Research: From Tredau Institute	395,859
93.838	Lung Diseases Research: From Univ. of Rochester	518,475
93.838	Lung Diseases Research: From Univ. of Calif.	165,720
93.839	Blood Diseases and Resources Research	109,760
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	379,518
93.849	Kidney Diseases, Urology and Hematology Research	141,355

		AMOUNT
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	1,229,148
93.854	Biological Basis Research in the Neurosciences	(5,807)
93.855	Allergy, Immunology and Transplantation Research	1,304,088
93.856	Microbiology and Infectious Diseases Research	3,457,191
93.856	Microbiology and Infectious Diseases Research: From Univ. of Washington	68,608
93.856	Microbiology and Infectious Diseases Research: From Colorado State Univ.	134,315
93.859	Biomedical Research and Research Training: From Case Western Univ.	1,145,887
93.862	Genetics and Developmental Biology Research	336,521
93.862	Genetics and Developmental Biology Research: From University of Minesota	40,627
93.865	Child Health and Human Development Extramural Research	66,808
93.866	Aging Research	17,270
93.867	Vision Research	325,727
93.887	Health Care and Other Facilities	124,882
93.906	Rural Health Medical Education Demonstration Projects	53,702
93.999	Miscellaneous Non-Major Grants	254,344
93.999	Miscellaneous Non-Major Grants: From Univ. of Washington	50,861
93.R&D	Miscellaneous Research and Development: From Univ. of South Dakota	293,378
	TOTAL	**$28,604,609**
SOCIAL SECURITY ADMINISTRATION		
96.007	Social Security Research and Demonstration	65,586
	TOTAL	**$65,586**
HOMELAND SECURITY		
93.996	Bioterrorism Training and Curriculum Development Program	78,627
	TOTAL	**$78,627**
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.005	Institutional Support Assistance (ISA): From Univ. of Hawaii - Man.	400,893
98.005	Institutional Support Assistance (ISA): From Univ. of Calf. Davis	90,915

		AMOUNT
98.005	Institutional Support Assistance (ISA): From Virginia Polytechnic	1,974
	TOTAL	$493,782
	TOTAL RESEARCH AND DEVELOPMENT CLUSTER	$102,943,765
	TOTAL EXPENDITURES OF FEDERAL AWARDS	$1,806,237,569

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Note 1. Basis of Accounting

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Program
The amount reported for Food Distribution programs (CFDA #10.567, #10.569, #10.570 and #10.565) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2004, Montana distributed $390,830 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $4,780,825 in commodities in fiscal year 2004. The value at June 30, 2004 of commodities stored at the state's warehouse is $ 1,509,580 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Non-fat Dry Milk
The federal government sold non-fat dry milk for $1.00 per semi-truck load. Each truck contained approximately 20 tons per truck. In fiscal year 2004, the Department of Agriculture purchased 264 truck loads for $264. The fair value of the dry milk is estimated at $422,000. The milk was given to qualified Montana farmers to exchange with feed producers to receive a credit in feed purchases as required by the USDA.

Federal Surplus Personal Property
In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds
The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents the administrative costs

expended as of June 30. The amount of loans outstanding as of June 30, 2004 in the Water Pollution Control Revolving Fund Program is $83,353,151.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents administrative costs expended as of June 30, 2004. The amount of loans outstanding for the program as of June 30, 2004 is $41,256,114.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2004 is $351,739.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed $184,866,228 in new loans for the Federal Family Education Loans (CFDA #84.032) program during fiscal year 2004. The outstanding loan balance (including principle, accrued interest and collection costs) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirements was $50,645,885 at June 30, 2004. The amount reported on the accompanying Schedule of Expenditures of Federal Awards represents the administrative cost allowance received for the program. In addition to the administrative cost allowance, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 2004 of $15,522,935 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor and $390,074 for default aversion.

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2004. The amount of loans outstanding as of June 30, 2004 is $30,133,985.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2004 is $1,583,584.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2004. The state used the CDC price list to calculate the value of doses received. During fiscal year 2004, Montana received 173,252 vaccine doses valued at 2,929,942.

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe

agreed to loan the State of Montana $11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. The amount presented for the Tongue River Rehabilitation Loan (CFDA 15.199) represents the amount of tribal loan funds expended on project costs during fiscal year 2004. The amount of the loan outstanding as of June 30, 2004 is $9,851,282.

Middle Creek Dam Rehabilitation Project Loan
The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the State of Montana "...a sum of money not to exceed the lesser of (1) $3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project including reimbursable interest during construction..." The total loan repayable is $2,990,129 and interest during construction is $281,857. The amount, as of June 30, 2004, of loan outstanding is $2,653,482 and of interest during construction outstanding is $230,812.

Note 2. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Single Audit report for the two fiscal years ended June 30, 2005 will be issued by March 31, 2006. The type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2005. The type A program threshold is estimated to be $12,708,230 for the biennial period.

Note 3. CFDA

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.*99, **.999, or **.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of

prototypes and processes. In cases where the federal agency does not have a designated CFDA #, the program was assigned a CFDA # in the format 99.999.

Note 4. Federal Excess Personal Property

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

CFDA #	Program	FY04 Amount	Inventory
10.664	Cooperative Forestry Assistance	$505,632	$8,701,321
12.999	Miscellaneous Non-Major	$0	$53,590
47.999	National Science Foundation	$0	$715,416

Note 5. Books for the Blind and Physically Handicapped:

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2004, was $1,872,651. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 6. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The President of the United States signed the Temporary Extended Unemployment Compensation Act (TEUCA) on March 9, 2002. This act initially provided up to 13 weeks of 100 percent federally funded benefits to qualified individuals in each state. The program was due to expire on December 31, 2002, but was extended until August 30, 2003. The program was later extended again until December 21, 2003. Final benefit payments were made the week of April 3, 2004. The TEUC program benefit payments totaled $7,234,691 of the total federal UI benefits paid in state fiscal year 2004.

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225), as well as a breakdown between administrative costs and benefit payments:

UI Administrative Costs	$ 7,284,019
State UI Benefits	79,393,958
Federal UI Benefits	14,487,726
Total	$101,165,703

Note 7. Subgrants to State Agencies

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 8. Subgrants to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2004.

CFDA Number	Program Title	Amount Provided To Subrecipient
10.156	Federal-State Marketing Improvement Program	18,650
10.200	Grants for Agricultural Research, Special Research Grants	701,362
10.206	Grants for Agricultural Research & Competitive Research Grants	155,256
10.217	Higher Education Challenge Grants	31,439
10.250	Agricultural and Rural Economic Research	16,818
10.302	Initiative for Future Agriculture and Food Systems	311,702
10.450	Crop Insurance	7,668
10.500	Cooperative Extension Service	111,183
10.550	Food Donation	2,542,989
10.553	School Breakfast Program	3,838,161
10.555	National School Lunch Program	16,021,549
10.556	Special Milk Program for Children	37,068
10.557	Special Supplemental Nutrition Program for WIC	3,316,861
10.558	Child and Adult Care Food Program	8,559,123
10.559	Summer Food Program for Children	756,754
10.560	State Administrative Expenses for Child Nutrition	170,045
10.570	Nutrition Services Incentive	660,303
10.572	WIC Farmers' Market Nutrition Program (FMNP)	41,051
10.574	Team Nutrition Grants	2,000
10.652	Forestry Research	51,608
10.664	Cooperative Forestry Assistance	466,261
10.665	Schools and Roads-Grants to States	12,426,043
10.672	Rural Development, Forestry, and Communities	340,414
10.769	Rural Business Enterprise Grants	(576)
10.773	Rural Business Opportunity Grants	129,628
10.901	Resource Conservation and Development	27,840
10.961	Scientific Cooperation and Research	32,572
11.112	Export Promotion Market Development Cooperation	23,367
12.002	Procurement Technical Assistance For Business Firms	94,235
12.300	Basic and Applied Scientific Research	320,832
12.630	Basic, Applied, and Advanced Research in Science and Engineering	28,921
12.910	Research & Technology Development	299,771
14.195	Section 8 Housing Assistance Payments Program Special Allocations	15,204,188
14.228	Community Development Block Grant/State's Program	7,732,320
14.239	Home Investment Partnerships Program	5,686,775
14.246	Community Development Block Grants/Brownfields Economic Development Initiative	5,897
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	131,758
14.871	Section 8 Housing Choice Vouchers	1,379,450
15.224	Cultural Resource Management	216,679
15.228	Wildland Urban Interface Community and Rural Fire Assistance	145
15.608	Fish and Wildlife Management Assistance	201,957
15.808	U.S. Geological Survey-Research and Data Collection	25,000
15.812	Cooperative Research Units Program	100,261
15.900	Miscellaneous	14,333
15.910	National Natural Landmarks Program	42,219
15.912	National Historic Landmark	25,451
15.916	Outdoor Recreation-Acquisition, Development and Planning	262,840
15.921	Rivers, Trails and Conservation Assistance	61,165
15.999	Miscellaneous Department of the Interior	106,814
16.523	Juvenile Accountability Incentive Block Grants	750,512
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	691,801
16.548	Title V Delinquency Prevention Program	55,000
16.549	Part E State Challenge Activities	70,500
16.554	National Criminal History Improvement Program (NCHIP)	153,560
16.575	Crime Victim Assistance	1,409,035
16.579	Byrne Formula Grant Program	1,556,022
16.588	Violence Against Women Formula Grant	660,159
16.592	Local Law Enforcement Block Grant Program	213,521
16.609	Community Prosecution and Project Safe Neighborhoods	30,000
16.710	Public Safety Partnership and Community Policing Grants	190,846
16.727	Enforcing Underage Drinking Laws Program	343,300
17.235	Senior Community Service Employment Program	538,276
17.249	Employment Services and Job Training: Pilot and Demo. Programs	67,021
17 258	WIA Adult Program	2,635,072
17.259	WIA Youth Activities	2,570,102
17.260	WIA Dislocated Workers	4,418,990
19.424	Educational Partnerships Program	25,229
20.106	Airport Improvement Program	252,562
20.205	Highway Planning and Construction	5,529,159
20.219	Recreational Trails	589,890

CFDA Number	Program Title	Amount Provided To Subrecipient
20.500	Federal Transit - Capital Investment Grants	109,239
20.505	Federal Transit - Metropolitan Planning Grants	290,295
20.507	Federal Transit - Formula Grants	1,915,676
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	369,502
20.514	Transit Planning and Research	132,540
20.600	State and Community Highway Safety	6,714,329
20.701	University Transportation Centers Program	56,018
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	10,777
21.999	Treasury Miscellaneous	2,256,999
43.000	NASA	1,253,089
43.001	Aerospace Education Services Program	96,695
43.002	Technology Transfer	46,291
45.025	Promotion of the Arts-Partnership Agreements	330,477
45.310	State Library Program	48,563
47.041	Engineering Grants	42,997
47.050	Geosciences	36,010
47.074	Biological Sciences	287,857
47.075	Social, Behavioral, and Economic Sciences	49,599
47.076	Education and Human Resources	1,356,608
47.078	Polar Programs	53,541
59.037	Small Business Development Center	400,000
66.500	Environmental Protection: Consolidated Research	279,258
66.606	Surveys, Studies, Investigations and Special Purpose Grants	71,636
66.811	Brownfield Pilots Cooperative Agreements	21,012
81.049	Office of Science Financial Assistance Program	106,878
81.057	University Coal Research	37,997
81.104	Office of Environmental Cleanup and Acceleration	37,000
81.119	State Energy Program Special Projects	161,681
84.002	Adult Education-State Grant Program	1,246,570
84.010	Title I Grants to Local Educational Agencies	36,941,325
84.011	Migrant Education-Basic State Grant Program	738,374
84.013	Title I Program for Neglected and Delinquent Children	184,646
84.015	National Resource Centers and Fellowships Program for Language and Area	8,750
84.027	Special Education - Grants to States	26,320,551
84.048	Vocational Education - Basic Grants to States	3,789,479
84.069	Leveraging Educational Assistance Partnership	214,787
84.116	Fund for the Improvement of Postsecondary Education	221,922
84.133	National Institute on Disability and Rehabilitation Research	25,529
84.153	Business and International Education	13,259
84.173	Special Education - Preschool Grants	1,209,645
84.186	Safe & Drug Free Schools and Communities - State Grants	1,964,729
84.196	Education for Homeless Children and Youth	173,500
84.213	Even Start - State Educational Agencies	945,383
84.215	Fund for the Improvement of Education	127,605
84.235	Rehabilitation Services Demonstration and Training Programs	81,309
84.243	Tech-Prep Education	418,525
84.264	Rehabilitation Training-Continuing Education	28,474
84.287	Twenty-First Century Community Learning Centers	2,764,678
84.298	State Grants for Innovative Programs	1,542,433
84.303	Technology Innovation Challenge Grants	5,000
84.318	Education Technology State Grants	2,785,648
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	175,980
84.324	Special Education-Research and Innovation to Improve Services and Results for Children with Disabilitie:	74,815
84.325	Special Education - Personnel Prep. to Improve Serv. & Results for Children with Disabilities	22,978
84.330	Advanced Placement Incentive Program	174,189
84.332	Comprehensive School Reform Demonstration	773,855
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	798,599
84.338	Reading Excellence	4,609,749
84.348	Title I Accountability Grants	64,972
84.350	Transition to Teaching	30,000
84.357	Reading First State Grants	1,832,551
84.358	Rural Education	529,748
84.360	Dropout Prevention Programs	182,000
84.365	English Language Acquisition Grants	514,494
84.366	Mathematics and Science Partnerships	42,283
84 367	Improving Teacher Quality State Grants	12,856,733
84.999	Miscellaneous - Non Major	362,969
93.003	Public Health and Social Services Emergency Fund	1,521
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	27,600
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	66,141

CFDA Number	Program Title	Amount Provided To Subrecipient
93.043	Special Programs for the Aging - Title III, Part D: Disease Prevention	108,496
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,588,535
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,508,485
93.048	Special Programs for the Aging - Title IV & and Title II - Discretionary Proj.	140,187
93.052	Nation Family Caregiver Support Program	790,361
93.110	Maternal and Child Health Federal Consolidated Programs	37,400
93.113	Biological Response to Environmental Health Hazards	119,820
93.115	Biometry and Risk Estimation-Health Risks from Environmental Exposures	48,959
93.150	Projects for Assistance in Transition from Homelessness (PATH)	293,598
93.173	Research Related to Deafness and Communication Disorders	28,354
93.184	Disabilities Prevention	32,028
93.217	Family Planning Services	1,266,983
93.226	Research on Healthcare Costs, Quality and Outcomes	42,123
93.230	Consolidated Knowledge Development and Application (KD&A) Program	344,991
93.235	Abstinence Education	22,376
93.241	State Rural Hospital Flexibility Program	291,654
93.273	Alcohol Research Programs	26,253
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	324,983
93.301	Small Rural Hospital Improvement Grants	444,813
93.361	Nursing Research	1,901
93.375	Minority Biomedical Research Support	937,500
93.389	National Center for Research Resources	199,840
93.556	Promoting Safe and Stable Families	808,435
93.558	Temporary Assistance for Needy Families (TANF)	(7,356)
93.566	Refugee and Entrant Assistance-State Administered Programs	79,631
93.575	Child Care and Development Block Grant	5,249,259
93.576	Refugee and Entrant Assistance-Discretionary Grants	55,832
93.590	Community-Based Family Resource and Support Grants	136,864
93.600	Head Start	152,371
93.630	Developmental Disabilities Basic Support and Advocacy Grants	14,997
93.647	Social Services Research and Demonstration	343,086
93.658	Foster Care Title IV-E	2,056,577
93.669	Child Abuse and Neglect State Grants	20,000
93.671	Family Violence Prevention and Services/Grants for Battered Women	804,008
93.674	Chafee Foster Care Independent Living	337,000
93.778	Medical Assistance Program	19
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	102,932
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	53,587
93.855	Allergy, Immunology and Transplantation Research	338,173
93.856	Microbiology and Infectious Diseases Research	37,765
93.913	Grants to States for Operation of Offices of Rural Health	10,000
93.940	HIV Prevention Activities-Health Department Based	48,811
93.959	Block Grants for Prevention and Treatment of Substance Abuse	5,042,033
93.969	Geriatric Education Centers	4,999
93.991	Preventive Health and Health Services Block Grant	152,469
93.994	Maternal and Child Health Services Block Grant to the States	1,102,082
93.996	Bioterrorism Training and Curriculum Development Program	2,679
94.004	Learn and Serve America - School and Community Based Program	30,462
94.005	Learn and Serve America - Higher Education	5,399
94.006	Americorps	1,650,202
96.007	Social Security Research and Demonstration	91,539
97.004	State Domestic Preparedness Equipment Support Program	536,843
97.021	Hazardous Materials Assistance Program	11,412
97.036	Public Assistance Grants	87,538
97.039	Hazard Mitigation Grant	190,026
97.042	Emergency Management Performance Grants	858,698
97.047	Pre-Disaster Mitigation	59,973
97.051	State and Local All Hazards Emergency Operations Planning	91,432
97.053	Citizen Corps	6,054
97.054	Community Emergency Response Teams	36,561
98.005	Institutional Support Assistance (ISA)	124,261
	TOTAL	257,280,862

Auditor's Report & Findings

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Legislative Audit Committee
of the Montana State Legislature:

Compliance

We have audited the compliance of the state of Montana with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the two fiscal years ended June 30, 2005. The state of Montana's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the state of Montana's management. Our responsibility is to express an opinion on the state of Montana's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the state of Montana's compliance with those requirements.

In our opinion, the state of Montana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the two fiscal years ended June 30, 2005. However, the results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs, Section III, findings: 2-1, 2-2, 2-3, 2-4, 2-5, 2-6, 2-8, 2-9, 2-12, 2-13, 2-14, 2-15, 2-16, 2-17, 2-18, 2-22, 2-23, 2-24, 2-27, 2-28, 2-29, 2-30, 2-32, 2-33, 2-34, 2-35, 2-36, 2-37, 2-39, 2-40, 2-41, 2-42, 2-43, 2-44, 2-45, 2-46, 2-49, 2-50, 2-51, 2-52, and 2-53.

Internal Control Over Compliance

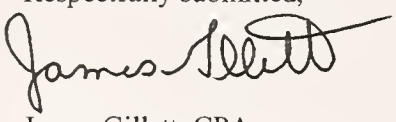
The management of the state of Montana is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the state of Montana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the state of Montana's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs, Section III, findings: 2-7, 2-8, 2-9, 2-10, 2-11, 2-12, 2-13, 2-19, 2-20, 2-21, 2-24, 2-25, 2-26, 2-28, 2-29, 2-31, 2-34, 2-35, 2-38, 2-40, 2-42, 2-46, 2-47, 2-48, 2-50, 2-51, and 2-52.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, federal awarding agencies, and pass-through entities, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

November 23, 2005

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2005

Section I – Summary of Auditor's Results

Basic Financial Statements
For Each of the Two Fiscal Years Ended June 30, 2005

	2004	2005
Type of auditor's report issued:	Unqualified	Unqualified
Internal control over financial reporting:		
• Material weakness identified?	No	No
• Reportable conditions identified that are not considered to be a material weakness?	No	No
Noncompliance material to the financial statements noted?	Yes	Yes

Federal Awards
For the Two Fiscal Years Ended June 30, 2005

Internal control over major programs:	2005
• Material weakness identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.551 & 10.561	Food Stamp Cluster
10.553, 10.555, 10.556, & 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants & Children
10.558	Child and Adult Care Food Program
10.665	Schools & Roads Cluster
12.400	Military Construction, National Guard
12.401	National Guard Military Operations & Maintenance Projects
14.195 & 14.856	Section 8 Project-Based Cluster
14.228	Community Development Block Grant/States Program
14.239	Home Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers

Section I – Summary of Auditor's Results

Identification of major programs continued:

CFDA Number(s)	Name of Federal Program or Cluster
15.605 & 15.611	Fish & Wildlife Cluster
17.207, 17.801 & 17.804	Employment Service Cluster
17.225	Unemployment Insurance
17.258, 17.259 & 17.260	Workforce Investment Act Cluster
20.205	Highway Planning and Construction Cluster
21.999	Jobs Growth & Tax Relief Reconciliation Act
66.458	Capitalization Grants for State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.007,84.032,84.033,84.038, 84.063, 84.268, 93.364 & 93.925	Student Financial Assistance Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 & 84.173	Special Education Cluster
84.032	Federal Family Education Loans (Guaranty Agency)
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States
84.367	Improving Teacher Quality State Grants
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low Income Home Energy Assistance
93.575 & 93.596	Child Care Cluster
93.658	Foster Care Title IV-E
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.775, 93.777 & 93.778	Medicaid Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse
97.004, 97.042, 97.053 & 97.067	Homeland Security Cluster
97.046	Fire Management Assistance Grant
Various	Research and Development Cluster

Due to the errors addressed in Finding 2-48, the Cooperative Forestry Assistance (CFDA #10.664) program does not meet the major program threshold.

Dollar threshold used to distinguish between Type A and Type B programs:	$12,633,931
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 1-1: Various Federal Agencies
CFDA # Various

Criteria: Article VIII, Section 15, of the Montana Constitution requires public retirement systems be funded on an actuarially sound basis. Teachers' Retirement Board (board) policy states, "whenever the amortization period of the unfunded liabilities for two consecutive valuations are projected to exceed 30 years through the use of long term cash flow projections, and the board cannot reasonably anticipate that the amortization period would decline without an increase in funding sources, it is the obligation of the board to recommend to the legislature that funding be increased."

Condition: The board has obtained an actuarial valuation of the Teachers' Retirement System annually for the last two years. The actuarial valuation dated July 1, 2004, determined the employer contribution rate would have to increase by 2.87 percent starting July 1, 2005, to maintain an amortization of the unfunded actuarial accrued liability over the 30-year period starting July 1, 2004. The board also obtained an actuarial evaluation of the Montana University System (MUS) participation in the system. The actuary determined the contribution rate needs to increase by 3.19 percent to amortize the past service liability of the MUS members by July 1, 2033, if the 1.5 percent Guaranteed Annual Benefit Adjustment (GABA) is included. The rate needs to increase by 1.05 percent if the GABA is excluded. The results of the July 1, 2005 actuarial valuation show the system is not funded on an actuarially sound basis. The actuarial valuation dated July 1, 2005, determined the employer contribution rate will have to increase by 4.06 percent starting July 1, 2006, to maintain an amortization of the unfunded actuarial accrued liability over the 30-year period starting July 1, 2005.

Questioned Costs: No questioned costs identified.

Context: The unfunded actuarial accrued liability grew from $383.5 million at July 1, 2002, to $757.8 million at July 1, 2004, and then to $903.3 million at July 1, 2005. The system's net assets at June 30, 2004, were $2.4 billion and $2.5 billion at June 30, 2005. During the 2005 Legislative Session the board sought legislation to increase the funding and no legislation was passed.

Effect: Until contribution rates are statutorily changed, the system is actuarially unsound. If the $131 million in actuarially unrecognized asset losses that occurred by June 30, 2004, are not offset by future gains, the amortization period of the unfunded actuarial accrued liability in future valuations will fall outside the measures accepted as financially sound, even with the actuarially determined rate increases. The 2005 actuary report determined, at the current contribution rate, the system will never be sound.

Cause: The actuary attributed the growth in the unfunded liability of the system to actuarial investment returns below the actuarial investment return assumption of eight percent. As a result, the contribution rates established in state law are insufficient to provide for the actuarial soundness of the system.

Recommendation: We recommend legislation be enacted to provide funding to ensure the Teachers' Retirement System is funded on an actuarially sound basis, as required by board policy and the Montana Constitution.

Section II – Financial Statement Findings

Finding 1-2: Various Federal Agencies
CFDA # Various

Criteria: Article VIII, Section 15, of the Montana Constitution requires public retirement systems be funded on an actuarially sound basis. Public Employees' Retirement Board (PERB) policy states, "whenever, through the use of long-term cash flow projections, the amortization period of a system's unfunded liabilities is projected to exceed 30 years for two consecutive valuations and the board cannot reasonably anticipate that the amortization period would decline without an increase in funding sources, it is the obligation of PERB to recommend to the legislature that funding be increased."

Condition: The PERB obtained an actuarial valuation of the eight defined benefit retirement plans annually for the last two years. The actuarial valuation determined as of July 1, 2004, the employer contribution rate would have to increase, starting July 1, 2005, by 1.19 percent for the Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), 2.15 percent for the Sheriffs' Retirement System (SRS), and 0.23 percent for the Game Wardens' and Peace Officers' Retirement System (GWPORS), to maintain an amortization of the unfunded actuarial accrued liability for each system over the 30-year period, starting July 1, 2004. The July 1, 2005, valuation determined the employer contribution rate would have to increase, starting July 1, 2006, by 1.58 percent for the PERS-DBRP, 2.69 percent for the SRS, and 0.26 percent for the GWPORS, to maintain an amortization of the unfunded actuarial accrued liability for each system over the 30-year period starting July 1, 2005.

Questioned Costs: No questioned costs identified.

Context: The unfunded actuarial accrued liability grew from July 1, 2002, to July 1, 2005, as follows: from $1 million to $522.6 million for PERS-DBRP, from $(17) million to $10.9 million for SRS, and from $0.4 million to $5.5 million for GWPORS. Net assets at June 30, 2004, and 2005, respectively, were $3.0 billion and $3.2 billion for PERS-DBRP, $140.5 million and $151.4 million for SRS, and $45.2 million and $51.8 million for GWPORS. During the 2005 Legislative Session PERB sought legislation to increase the funding and no legislation was passed.

Effect: Until contribution rates are statutorily changed, the PERS-DBRP, SRS and GWPORS are actuarially unsound. If the actuarially unrecognized asset losses that occurred by June 30, 2005, are not offset by future gains, the amortization period of the unfunded actuarial accrued liability in future valuations will fall outside the measures accepted as financially sound, even with the actuarially determined rate increases.

Cause: The actuary attributed the growth in the unfunded liabilities of the systems primarily to actuarial investment returns below the actuarial investment return assumption of eight percent for all three systems. As a result, the contribution rates established in state law are insufficient to provide for the actuarial soundness of each system.

Recommendation: We recommend legislation be enacted for funding changes to ensure the PERS-DBRP, SRS, and GWPORS are funded on an actuarially sound basis, as required by the Montana Constitution and state law.

Section III - Federal Award Findings and Questioned Costs

Finding 2-1: U.S. Department of Homeland Security
CFDA #97.004, State Domestic Preparedness Equipment Support Program

Criteria: Program regulations for the Department of Homeland Security/Office of Domestic Preparedness (ODP) grants require a program report to be completed and submitted within 30 days of the months ending June and December.

Condition: The Department of Military Affairs (department) is responsible for the program reports. Federal ODP staff conducted a program review of the grant in May of 2004, and noted three program reports due January 30, 2004, had not been received. We inquired as to the status of the reports, and found the reports had not been completed, and the three reports due July 30, 2004, had also not been completed.

Questioned Costs: No questioned costs identified.

Context: The department was required to prepare and file six program reports for fiscal year 2003-04.

Effect: The department is not in compliance with federal reporting regulations.

Cause: Department personnel indicated allocation of staff time to conduct other grant activities did not allow time to get the program reports filed.

Recommendation: We recommend the Department of Military Affairs submit required program reports when due in accordance with federal regulations.

Section III - Federal Award Findings and Questioned Costs

Finding 2-2: U.S. Department of Homeland Security
CFDA #97.046, Fire Management Assistance Grant

Criteria: OMB Circular A-87, Attachment A, Section C(1)(j), requires the Department of Natural Resources and Conservation (department) have adequate documentation for costs to be considered allowable.

Condition: We identified nine fire meal payments, totaling $1,387, that were paid with limited documentation, and four of these, totaling $317, were submitted for federal reimbursement.

Questioned Costs: We question $317 in costs charged to the Fire Management Assistance Award, but believe potential questioned costs for this award could exceed $10,000.

Context: The department expended approximately $79 million in fiscal year 2003-04 in wildfire suppression activities. At June 30, 2004, department personnel estimated $32.1 million of the total fire suppression costs were eligible for federal reimbursement.

Effect: Payments are not supported and are, therefore, unallowable per federal regulations.

Cause: Department personnel believe these issues resulted from the extreme nature of the 2003 fire season. In response to these issues, department personnel established new procedures related to meals and payment of invoices, and also provided additional training to employees regarding proper documentation and meal limits.

Recommendation: We recommend the Department of Natural Resources and Conservation clarify and enforce its policy regarding the review, approval, and processing of claims.

Section III - Federal Award Findings and Questioned Costs

Finding 2-3: U.S. Department of Housing and Urban Development
CFDA #14.246, Community Development Block Grants/Brownfields Economic Development Initiative

U.S. Department of Education
CFDA #84.352, Grants for School Repair and Renovation

Criteria: The Department of Administration's Architecture and Engineering Division (division) administers state construction projects for various state agencies. Federal regulation, 29 CFR 5.5, implements the federal Davis-Bacon Act. It requires the contractor to submit a copy of the weekly payroll and a statement of compliance with federal prevailing wage requirements to the division for each week in which any contract work is performed.

Condition: The division did not collect certified weekly payroll for three projects with federal funding during fiscal years 2002-03 and 2003-04.

Questioned Costs: We question $251,098 of costs charged in fiscal years 2002-03 and 2003-04; $24,157 to CFDA #84.352 and $226,941 to CFDA #14.246.

Context: There were 28 projects that received federal funds during fiscal years 2002-03 and 2003-04. The division did not have weekly certified payrolls for three of these projects.

Effect: The division did not comply with federal regulations, resulting in questioned costs.

Cause: The project managers were aware of the prevailing wage requirements, but not all of them were aware that the division needed to receive copies from the contractor. Department personnel said it is the responsibility of the state agency initiating the construction to inform the division of the applicable federal requirements.

Recommendation: We recommend the Department of Administration collect certified weekly payrolls for projects subject to the federal Davis-Bacon Act in accordance with federal regulations.

Section III - Federal Award Findings and Questioned Costs

Finding 2-4: U.S. Department of Transportation
CFDA #20.608, Minimum Penalties for Repeat Offenders for Driving While Intoxicated

Criteria: The Department of Administration's Information Technology Services Division (ITSD) entered into two agreements with the Montana Department of Transportation, Traffic Safety Bureau, for work on Public Safety Radio Projects. The agreements identified the source of funds as federal funds from the U.S. Department of Transportation, National Highway Traffic Safety Administration. The agreements noted ITSD was subject to compliance with applicable state and federal laws and regulations. OMB Circular A-87, Attachment A, Section E(2)(a), states that compensation of employees is allowable for the time devoted and identified specifically to the performance of an award. OMB Circular A-87, Attachment A, Section C(1)(j) requires costs be adequately documented to be allowable.

Condition: We found controls were not adequate to ensure all expenditures incurred by ITSD on the Public Safety Radio projects were in compliance with state and federal regulations. We identified $97,017 of unallowable personal services and $9,701 in associated indirect cost recoveries. We also identified $3,895 of expenditures containing inadequate documentation and $1,539 in expenditures prohibited by provisions of the grant agreement.

Questioned Costs: We question costs of $112,152 charged to CFDA #20.608.

Context: Total grant expenditures from June 2002 through September 2003, were $300,872.

Effect: The department did not comply with federal regulations, resulting in questioned costs.

Cause: Department personnel stated ITSD personnel had no prior knowledge, training, or experience with federal grant programs or related compliance items.

Recommendation: We recommend the Department of Administration implement controls to ensure federal funds are expended in compliance with state and federal regulations.

Section III - Federal Award Findings and Questioned Costs

Finding 2-5: U.S. Department of Justice
CFDA #16.710, Public Safety Partnership and Community Policing Grants

U.S. Department of Transportation
CFDA #20.608, Minimum Penalties for Repeat Offenders for Driving While Intoxicated

Criteria: OMB Circular A-87, Attachment A, Section C(1)(c), indicates that to be allowable, a cost must be authorized or not prohibited under state or local laws or regulations. Montana Operations Manual, Volume 1, Chapter 300, outlines state travel policy.

Condition: We found travel reimbursement vouchers completed incorrectly by the Department of Administration's Information Technology Services Division (ITSD) employees. We noted several items where the support was not adequate to show the expenditure was related to the federal grant. These items charged to federal funds were not documented as required by state policy. Because they are not in compliance with state policy, they are also not allowable charges to federal grants.

Questioned Costs: We question costs of $546 to CFDA #16.710 and $11,416 to CFDA #20.608 for federal fiscal years 2001-02 and 2002-03.

Context: There was a consistent lack of documentation.

Effect: The department did not comply with federal grant regulations, resulting in questioned costs.

Cause: Department personnel stated ITSD personnel had no prior knowledge, training, or experience with federal grant programs or related compliance items.

Recommendation: We recommend the Department of Administration require employees to properly complete travel vouchers in accordance with state policy.

Section III - Federal Award Findings and Questioned Costs

Finding 2-6: U.S. Department of Transportation
CFDA #20.607, Alcohol Open Container Requirements
CFDA #20.608, Minimum Penalties for Repeat Offenders for Driving While Intoxicated

Criteria: OMB Circular A-87, Attachment A, Section C(1)(d), says that to be allowable, costs must conform to federal laws and terms and conditions of the federal award. The Highway Safety Grant Management Manual Part III, Section (A)(2), states that construction or reconstruction of permanent facilities is not an allowable activity. Under 23 CFR 1200.21(d), in order to purchase equipment with a useful life of more than one year and an acquisition cost of $5,000, prior written approval must be obtained from the approving federal official.

Condition: The Montana Department of Transportation subgranted a portion of the award to the Department of Justice Highway Patrol Division (division). The award is to provide a coordinated national highway safety program to reduce traffic accidents, deaths, injuries, and property damage. The division was responsible for purchasing equipment and expending the grant funds on behalf of the Mobile Data Communications System Task Force, a non-state entity. Neither the Department of Transportation nor the division obtained approval for award expenditures totaling $214,584 for the construction of towers and $1,392,098 in equipment purchases charged to the award in fiscal year 2003-04.

Questioned Costs: We question costs of $1,058,274 charged to CFDA #20.607 and $548,408 charged to CFDA #20.608.

Context: Total award expenditures from May 2002 to October 2003 were $3,913,690.

Effect: The division is not in compliance with federal award requirements, resulting in questioned costs.

Cause: Highway Patrol Division personnel did not consider the division to be the recipient of the award and spent the funds as the task force requested.

Recommendation: We recommend the Department of Justice ensure all State and Community Highway Safety grant expenditures are allowable per the grant agreement and federal regulations.

Section III - Federal Award Findings and Questioned Costs

Finding 2-7: U.S. Department of Agriculture
CFDA #10.665, Schools and Roads – Grants to States

Criteria: The State Auditor's Office (office) is the pass-through agency for the federal forest reserve program. OMB Circular A-133, Subpart D, Section .400(d), requires a pass-through entity be responsible for ensuring the subrecipients take timely and appropriate action on all audit findings.

Condition: The program shares receipts from the national forests with the states in which these forests are situated. Under state law, these receipts, and interest earned on the balance, must be distributed to the counties. Because the office is the pass-through agency for these funds, it is responsible for monitoring the forest receipts disbursed to the counties. Independent auditors were hired to perform audits of counties that receive these funds. Any findings related in these audit reports are communicated each quarter to the agency responsible for the program audited. Between July 2003 and August 2005, the office was notified of six findings related to the federal forest reserve program. The office did not perform any follow up with the counties on these findings.

Questioned Costs: No questioned costs identified.

Context: The office did not follow up on the six findings communicated to them between July 2003 and August 2005.

Effect: The office is not in compliance with federal subrecipient monitoring requirements.

Cause: Office personnel indicated they are required to distribute funds under state law and cannot withhold funds for non-compliance with either state or federal laws. Because the office lacks this capability, it does not follow up on findings communicated from local government audits.

Recommendation: We recommend the State Auditor's Office follow up on local government audit findings communicated to the office, as required by federal subrecipient monitoring requirements.

Section III - Federal Award Findings and Questioned Costs

Finding 2-8: U.S. Department of Agriculture
CFDA #10.664, Cooperative Forestry Assistance

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Natural Resources and Conservation (department) to maintain adequate internal control that provides reasonable assurance a federal award is managed in compliance with laws, regulations, and the provisions of the grant agreements that could have a material effect on the award. Federal regulation, 7 CFR 3016.20(a), requires fiscal control and accounting procedures must be sufficient to permit preparation of reports required, and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Condition: The control procedures used by the department resulted in co-mingled state and federal expenditures in fiscal years 2001-02 through 2003-04. The department uses multiple accounting cost centers to account for Cooperative Forestry Assistance (CFA) award expenditures. The expenditures recorded in these cost centers are not limited to CFA federal expenditures, and also include state funds. In addition, three of the cost centers used in fiscal year 2003-04 also contained other federal award activity. We were unable to isolate fiscal year 2003-04 CFA award expenditures. Improvements were made in the control procedures in fiscal year 2004-05; but multiple accounting cost centers were still used.

Questioned Costs: No questioned costs identified.

Context: The department expended $2,419,204 in fiscal year 2001-02; $2,788,581 in fiscal year 2002-03; $1,841,499 in fiscal year 2003-04; and $3,475,472 in fiscal year 2004-05, under this award.

Effect: We believe the structure of the financial records impairs the department's ability to prepare accurate financial reports (finding 2-12) and demonstrate proper management of the funds.

Cause: Department personnel indicated employee turnover and growth in complexity and size of the award over time impacted their ability to administer this award in accordance with federal laws and regulations.

Recommendation: We recommend the Department of Natural Resources and Conservation establish, document, and monitor internal control over compliance with requirements for the Cooperative Forestry Assistance federal award.

Section III - Federal Award Findings and Questioned Costs

Finding 2-9: U.S. Department of Agriculture
CFDA #10.664, Cooperative Forestry Assistance

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Natural Resources and Conservation (department) to maintain adequate internal control that provides reasonable assurance a federal award is managed in compliance with laws, regulations, and the provisions of the grant agreements that could have a material effect on the award. Federal regulation, 7 CFR 3016.20(b)(7), requires the department to establish cash management procedures to minimize the time between the transfer of funds from the U.S. Treasury and the related disbursement.

Condition: Department personnel were unable to provide documentation demonstrating the weekly review of cash balances occurred or adequate controls over compliance with this requirement existed. We noted lack of consistency with cash draws and little correlation between the amount drawn and the related expenditure activity. There were also several instances where the department did not minimize the time elapsing between the transfer of funds from the U.S. Treasury and the related disbursements. In fiscal year 2003-04, four cash draws totaling $2,259,968 were made in August, September, and December 2003. No additional draws occurred after December 2003, even though the department continued to incur expenditures.

Questioned Costs: No questioned costs identified.

Context: The department expended $1,841,499 in fiscal year 2003-04 under this award.

Effect: The department did not have adequate internal control to ensure compliance with federal requirements.

Cause: Department personnel indicated employee turnover and growth in complexity and size of the award over time impacted their ability to administer this award in accordance with federal laws and regulations.

Recommendation: We recommend the Department of Natural Resources and Conservation establish, document, and monitor internal control over compliance with requirements for the Cooperative Forestry Assistance federal award.

Section III - Federal Award Findings and Questioned Costs

Finding 2-10: U.S. Department of Agriculture
CFDA #10.664, Cooperative Forestry Assistance

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Natural Resources and Conservation (department) to maintain adequate internal control that provides reasonable assurance a federal award is managed in compliance with laws, regulations, and the provisions of the grant agreements that could have a material effect on the award. The Cooperative Forestry Assistance award provides resources for local firefighting organizations submitting grant proposals to the department. According to the Volunteer Fire Assistance Program Desk Guide, only local firefighting organizations serving communities with a population under 10,000 are eligible for these funds.

Condition: Department personnel have no documentation demonstrating local firefighting organization eligibility was considered in the subgrant approval process during fiscal year 2003-04.

Questioned Costs: No questioned costs identified.

Context: The department expended $1,841,499 in fiscal year 2003-04 under this award.

Effect: The department did not comply with federal regulations. We did not identify ineligible firefighting organizations, but the potential exists for an ineligible organization to receive funds.

Cause: Department personnel indicated employee turnover and growth in complexity and size of the award over time impacted their ability to administer this award in accordance with federal laws and regulations.

Recommendation: We recommend the Department of Natural Resources and Conservation establish, document, and monitor internal control over compliance with requirements for the Cooperative Forestry Assistance federal award.

Section III - Federal Award Findings and Questioned Costs

Finding 2-11: U.S. Department of Agriculture
CFDA #10.664, Cooperative Forestry Assistance

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Natural Resources and Conservation (department) to maintain adequate internal control that provides reasonable assurance a federal award is managed in compliance with laws, regulations, and the provisions of the grant agreements that could have a material effect on the award. The grant agreement requires the department to match federal funds with state funds in administering this award.

Condition: Our review of the fiscal year 2003-04 accounting records indicated the department complied with this matching requirement. However, the department was unable to demonstrate they reviewed expenditures on the primary accounting records or summary reports to ensure compliance with federal regulations. No significant improvements were made in the control procedures in fiscal year 2004-05.

Questioned Costs: No questioned costs identified.

Context: The department's expenditures under this award were $1,841,499 in fiscal year 2003-04, and $3,475,472 in fiscal year 2004-05.

Effect: The department did not have adequate internal controls to determine compliance with federal requirements.

Cause: Department personnel indicated employee turnover and growth in complexity and size of the award over time impacted their ability to administer this award in accordance with federal laws and regulations.

Recommendation: We recommend the Department of Natural Resources and Conservation establish, document, and monitor internal control over compliance with requirements for the Cooperative Forestry Assistance federal award.

Section III - Federal Award Findings and Questioned Costs

Finding 2-12: U.S. Department of Agriculture
CFDA #10.664, Cooperative Forestry Assistance

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Natural Resources and Conservation (department) to maintain adequate internal control that provides reasonable assurance a federal award is managed in compliance with laws, regulations, and the provisions of the grant agreements that could have a material effect on the award. Federal regulation, 7 CFR 3016.41, together with the grant agreement, require the department to submit financial status reports on a quarterly basis.

Condition: Department personnel were unable to describe the control procedures used to ensure these reports are prepared and submitted as required, and no one was responsible for reviewing and approving these reports. No financial reports were prepared or submitted in fiscal year 2003-04.

Questioned Costs: No questioned costs identified.

Context: The department was required to prepare and file eight financial status reports for fiscal year 2003-04.

Effect: The department did not comply with federal regulations and reporting requirements.

Cause: The employee in charge of completing the reports no longer works for the department. Department personnel indicated employee turnover and growth in complexity and size of the award over time impacted their ability to administer this award in accordance with federal laws and regulations.

Recommendation: We recommend the Department of Natural Resources and Conservation establish, document, and monitor internal control over compliance with requirements for the Cooperative Forestry Assistance federal award.

Section III - Federal Award Findings and Questioned Costs

Finding 2-13: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children

Criteria: Federal regulation, 7 CFR 246.12(q), requires the Department of Public Health and Human Services (department) to account for the disposition of all food instruments as either issued or voided, and as either redeemed or unredeemed.

Condition: The department contracts with local organizations that determine eligibility of participants and issue food instruments to clients. These local organizations submit receipts for voided or reissued food instruments. Department personnel match the information provided on the receipts to a daily report of voided and reissued food instruments to detect instances where clients receive more benefits than allowed. From June 2004 to May 2005, the department did not complete this review process. In two previous audits, we recommended the department complete and document review of food instrument reports.

Questioned Costs: No questioned costs identified.

Context: Award expenditures were $13,567,700 in fiscal year 2003-04 and $13,868,232 in fiscal year 2004-05.

Effect: The department did not comply with federal regulations. The potential exists for the inappropriate issuance of duplicate food instruments to occur and remain undetected.

Cause: Department personnel staff indicated the procedure to check for voided or reissued vouchers had not been conducted because the process is time consuming and the person assigned the task had been out of the office on medical leave for a portion of the year.

Recommendation: We recommend the Department of Public Health and Human Services complete and document reviews of voided and reissued food instruments.

Section III - Federal Award Findings and Questioned Costs

Finding 2-14: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children

Criteria: Federal regulation, 7 CFR 246.19(b), requires the Department of Public Health and Human Services (department) to establish an ongoing management evaluation system. The system is to include monitoring of local agency operations, review of local agency financial and participation reports, development of corrective action plans to resolve deficiencies, monitoring the implementation of corrective action plans, and on-site visits. The department is to conduct a review of each local agency at least once every two years. Each review must include on-site reviews of at least 20 percent of each local agency's clinics. The department must promptly notify the local agency of any findings. Department policy requires the monitoring report be provided to the local agencies within 60 days. The department must require the submission of a corrective action plan within 60 days of receipt of the report.

Condition: The department's monitoring log showed 32 monitoring visits were completed. For these 32 visits, 19 reports were completed and sent to the local agency for corrective action, two reports were in process, and 11 reports had not been completed or sent to the local agency for corrective action. Of the 19 completed reports, only 11 were submitted to the local agency within 60 days of the visit. Ten of the 11 incomplete reports were missing information from a portion of the review. The department did not review financial reports or evaluate financial management systems at any of the 32 on-site reviews. We reviewed files related to 10 local agency monitoring visits, of which seven conducted clinics. We determined the department did not perform the required number of on-site clinic reviews as part of the local agency review.

Questioned Costs: No questioned costs identified.

Context: Award expenditures were $13,567,700 in fiscal year 2003-04 and $13,868,232 in fiscal year 2004-05.

Effect: The department did not comply with federal regulations.

Cause: Department personnel indicated changing priorities affected the timeliness of report completion. Financial reports and financial management systems were not reviewed because the department decided to focus more on other elements of the reviews. Department staff indicated scheduling clinic visits during a monitoring review is difficult because clinics in Montana are open only a few days each month and separate trips to review the clinics are costly to the program.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Promptly notify a local agency of any finding identified during a monitoring review, in accordance with federal regulations.

B. Review local agency financial reports and evaluate financial management systems during monitoring reviews, in accordance with federal regulations.

C. Perform reviews of nutrition clinics in each local agency in accordance with federal regulations.

Section III - Federal Award Findings and Questioned Costs

Finding 2-15: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children

Criteria: Federal regulation, 7 CFR 246.19(b)(4), requires the Department of Public Health and Human Services (department) to notify a local agency of any findings resulting from a monitoring review. The department must require the local agency to submit a corrective action plan within 60 days of receipt of the department's report.

Condition: The department does not track local agency submission of corrective action plans developed in response to findings from monitoring reviews.

Questioned Costs: No questioned costs identified.

Context: During our audit, the department sent 19 monitoring review reports to the local agencies requiring corrective action plans. At the time of our review, nine corrective action plans were received and approved, one was received but not approved, two were not yet due, and seven were not received within 60 days.

Effect: The department did not comply with federal regulations.

Cause: Department personnel indicated they previously tracked the receipt of all corrective action plans, but the position responsible for the tracking had been vacant for some time.

Recommendation: We recommend the Department of Public Health and Human Services obtain corrective action plans from the local agencies within 60 days of the date the findings reports were received by the local agencies.

Section III - Federal Award Findings and Questioned Costs

Finding 2-16: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Criteria: Federal regulation, 7 CFR 246.12(j), requires the Department of Public Health and Human Services (department) to design and implement a system for monitoring WIC vendors for compliance with program requirements. The department must conduct routine monitoring visits on a minimum of five percent of the authorized vendors, concentrating on high-risk vendors. The department must also identify high-risk vendors at least once a year based on criteria developed by the department.

Condition: Although the department has responded to complaints about certain vendors, it has not conducted compliance investigations or assessed the risk on non-compliance by vendors.

Questioned Costs: No questioned costs identified.

Context: Of the 235 active WIC vendors, a minimum of 12 must be reviewed each year.

Effect: The department did not comply with federal regulations.

Cause: Department personnel indicated they lack the staff resources to perform the vendor compliance investigations.

Recommendation: We recommend the Department of Public Health and Human Services conduct annual compliance investigations of WIC vendors as required by federal regulations.

Section III - Federal Award Findings and Questioned Costs

Finding 2-17: U.S. Department of Agriculture
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Criteria: Federal regulation, 7 CFR 246.7(l), places responsibility for the prevention and identification of dual participation on the Department of Public Health and Human Services (department). The department is required to take action to identify suspected instances of dual participation at least semiannually.

Condition: Existing procedures specify the department will prepare a report from its records on a monthly basis to identify WIC clients certified to receive benefits more than once during the month being reviewed. We determined the department did not follow these procedures during the audit period. This issue was also addressed in our previous audit.

Questioned Costs: No questioned costs identified.

Context: During the two fiscal years ended June 30, 2005, the department ran and reviewed the WIC reports in eight out of 24 months. No reports have been reviewed since May 2004.

Effect: The department did not comply with federal regulations, which raises the risk that clients receiving WIC benefits more than once a month will not be detected.

Cause: Department personnel cited time constraints and frustration with the computer system used to track program activity as the reason the reports were not reviewed.

Recommendation: We recommend the Department of Public Health and Human Services run and review its WIC dual certification report monthly to detect dual participation by clients.

Section III - Federal Award Findings and Questioned Costs

Finding 2-18: U.S. Department of Agriculture
CFDA #10.558, Child and Adult Care Food Program

Criteria: Federal regulation, 7CFR 226.6(b), requires the Department of Public Health and Human Services (department) to establish an application procedure to determine eligibility of participating institutions and facilities. January 2004 federal regulation, 7 CFR 226.15(b)(2), and January 2005 federal regulation, 7 CFR 226.15(e)(1), require the application to be accompanied by all supporting documentation. Department policy requires a checklist be place in the file to log the receipt of the application documentation.

Condition: The department's documentation of provider eligibility is incomplete for the Child and Adult Care Feeding Program.

Questioned Costs: No questioned costs identified.

Context: Of 15 application files reviewed, six did not contain the checklist required by department policy. Of six feeding center files reviewed, evidence of a review of the sample menu was missing in two.

Effect: Increased risk of noncompliance with federal and state eligibility requirements.

Cause: Department personnel said staff turnover occurred and new staff had not realized that the checklists should be placed in the file with the application. Some personnel did not know that menus reviewed during the application process should be retained.

Recommendation: We recommend the Department of Public Health and Human Services file checklists and application documentation in the Child and Adult Care Feeding Program provider files in accordance with state and federal regulations.

Section III - Federal Award Findings and Questioned Costs

Finding 2-19: Various Federal Agencies
CFDA #Various

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain control over federal programs that provides reasonable assurance the department is managing federal awards in compliance with laws, regulations, and grant provisions. The March 2004 Compliance Supplement, page 3-I-1, prohibits the department from contracting with parties that are suspended or debarred from participating in federal programs. The May 2005 Compliance Supplement did not modify this requirement. The department adopted a policy to prevent contracting with parties that have been suspended and debarred. The policy specifies that department contract managers are to sign and date a form certifying the official federal listing of debarred parties was reviewed prior to executing the contract.

Condition: The department did not implement procedures designed to prevent it from contracting with suspended or debarred parties. Contractor files lack documentation that staff checked the federal debarred party website prior to executing a contract.

Questioned Costs: No questioned costs identified.

Context: None of the 15 contract files reviewed contained the required certification form.

Effect: The department is at risk of contracting with a suspended or debarred party.

Cause: Although the department adopted its policy in March 2003, department personnel have not implemented it.

Recommendation: We recommend the Department of Public Health and Human Services implement its policy to prevent contracting with parties that have been suspended and debarred from participating in federal programs.

Section III - Federal Award Findings and Questioned Costs

Finding 2-20: U.S. Department of Health and Human Services
CFDA #93.778, Medical Assistance Program

Criteria: The March 2004 Compliance Supplement, page 4-93.778-8, indicates to be allowable, medical service costs paid by the Department of Public Health and Human Services (department) must be covered by its state plan and waivers. The May 2005 Compliance Supplement did not modify this language. Medical service costs must also be for allowable services rendered, supported by medical records or other evidence indicating the service was actually provided and was consistent with the medical diagnosis.

Condition: Disability services facilities contract with the department to provide services to Medicaid eligible recipients. These providers bill the department monthly for services performed. The department provides a form to each provider for identifying the units of service provided to each client. Department management indicated its regional administrative assistants verify and authorize these provider submitted invoices. Quality improvement specialists are also responsible for verifying invoices during monitoring reviews. We determined, however, that the department's subsequent review of completed billing invoices does not consistently include verification of the quantity of services billed.

Questioned Costs: No questioned costs identified.

Context: We contacted each of the five regional administrative assistants; only one performs a verification of the provider invoice. We also contacted five of the 16 quality improvement specialists, responsible for performing quality assurance reviews. Only one of the five quality improvement specialists we contacted verifies invoices as part of a monitoring review.

Effect: The potential exists for unallowable costs to be incurred by the department and not be detected in a timely manner.

Cause: The quality improvement specialists we contacted were unaware that invoice verification was to be completed as part of the review. The regional administrative assistants do not receive supporting documentation from the provider that would allow for invoice verification.

Recommendation: We recommend the Department of Public Health and Human Services communicate management's expectations regarding disability services provider invoice reviews to regional administrative assistants and quality improvement specialists.

Section III - Federal Award Findings and Questioned Costs

Finding 2-21: U.S. Department of Health and Human Services
CFDA #93.778, Medical Assistance Program

Criteria: The Medicaid state plan and state regulations require the inpatient hospital facilities to file cost reports with the Department of Public Health and Human Services (department) and the Montana Medicare intermediary within 150 days of the facility's fiscal year-end.

Condition: The department does not have a mechanism to determine whether inpatient hospitals submit cost reports in a timely manner. Department procedures do not include logging the date on which the department receives cost reports from the providers, so the department does not document whether hospitals submit cost reports within 150 days.

Questioned Costs: No questioned costs identified.

Context: In fiscal year 2003-04, five inpatient hospital facilities did not submit cost reports within the 150-day requirement. Although the cost reports were due in October and November of 2004 and February of 2005, the facilities had not submitted the reports as of May 2005.

Effect: The department is unable to ensure compliance with state policy and the Medicaid state plan.

Cause: The department employee responsible for reviewing the cost reports said the review schedule often lags several months behind the due date, so late reports have not delayed the reviews.

Recommendation: We recommend the Department of Public Health and Human Services develop procedures to document the receipt of cost reports to achieve compliance with state regulations and the approved state Medicaid plan.

Section III - Federal Award Findings and Questioned Costs

Finding 2-22: U.S. Department of Health and Human Services
CFDA #93.778, Medical Assistance Program

Criteria: Section 1927 of the Social Security Act allows the Department of Public Health and Human Services (department) to obtain rebates for drug purchases reimbursed by Medicaid. The March 2004 Compliance Supplement, page 4-93.778-12, requires the department to provide drug utilization data to drug manufacturers no later than 60 days after the end of each quarter so the drug rebate can be calculated. The May 2005 Compliance Supplement did not modify this requirement.

Condition: The department does not consistently provide manufacturers with drug utilization data within the 60-day requirement. The data is normally provided to manufacturers between 60 and 70 days after the end of each quarter.

Questioned Costs: No questioned costs identified.

Context: This is a systemic problem; department officials indicated the department has never been able to consistently meet the 60-day submission requirement.

Effect: The department's delayed submission of the drug utilization data to the manufacturers delays receipt of rebates from the manufacturers.

Cause: A department official said the rebate data sent to drug manufacturers depends on drug pricing information provided by the federal government that usually arrives 45 days after the end of the quarter. This compresses the remaining tasks involved in preparing the drug utilization data into a two-week period.

Recommendation: We recommend the Department of Public Health and Human Services provide drug utilization data to manufacturers within 60 days after the end of the quarter as required by federal regulation.

Section III - Federal Award Findings and Questioned Costs

Finding 2-23: U.S. Department of Health and Human Services
CFDA #93.658, Foster Care - Title IV-E

Criteria: Federal regulation, 45 CFR 1356.21(b)(2)(i), requires the Department of Public Health and Human Services (department) to finalize a permanency placement plan through a formal hearing process within 12 months of the date a child enters the foster care program. The department must re-evaluate the permanency placement plan at least once every 12 months as long as the child remains in the foster care program.

Condition: The department did not consistently ensure permanency placement hearings were completed timely. Therefore, ineligible children received foster care assistance.

Questioned Costs: We question $205,870 charged to the Foster Care - Title IV-E award for assistance provided to ineligible children.

Context: We reviewed 45 case files for compliance with eligibility requirements and identified 18 eligibility errors caused by late placement hearings.

Effect: The department did not comply with federal regulations, which resulted in questioned costs.

Cause: Department personnel cited insufficient training in Title IV-E requirements for social workers and scheduling conflicts with courts as key factors causing late permanency placement hearings. To address this, the department established a central staff group in December 2003 specifically trained to determine Title IV-E eligibility and monitoring Title IV-E compliance.

Recommendation: We recommend the Department of Public Health and Human Services continue to improve procedures to ensure permanency placement hearings occur as required by federal regulation.

Section III - Federal Award Findings and Questioned Costs

Finding 2-24: U.S. Department of Health and Human Services
CFDA #93.658, Foster Care - Title IV-E

Criteria: The Title IV-E state plan requires the Department of Public Health and Human Services (department) to review client eligibility every 12 months, consistent with the requirements of 45 CFR 1356. The department's administrative rules require department personnel to re-determine client eligibility every 6 months.

Condition: The department did not conduct timely reviews of foster care client eligibility.

Questioned Costs: No questioned costs identified.

Context: We reviewed 45 case files, of which 39 were subject to the federally required annual review. Of the 39 files, 11 did not contain a timely annual eligibility review required by federal regulation. None had a six-month review required by the department's administrative rules. Continued eligibility was affirmed in each of the 11 cases during the subsequent eligibility review.

Effect: The department did not comply with federal regulations or its foster care eligibility re-determination policy.

Cause: Department management said they thought the six-month re-determination of eligibility rule had been repealed.

Recommendation: We recommend the Department of Public Health and Human Services:

A. Establish procedures to review foster care case files as required by federal regulations,

B. Comply with state administrative rule requiring eligibility review for foster care cases every six months.

Section III - Federal Award Findings and Questioned Costs

Finding 2-25: U.S. Department of Health and Human Services
CFDA #93.658, Foster Care - Title IV-E

Criteria: Title IV, Part E, Section 474 of the Social Security Act entitles the Department of Public Health and Human Services (department) to use the Federal Medical Assistance Percentage (FMAP) to calculate the federal share of Title IV - E foster care benefits.

Condition: The FMAP rate changes each federal fiscal year. To eliminate the need to manually record the state and federal portions of foster care expenditures, the department programs the state's accounting system to record expenditure activity in the federal and state funds according to the FMAP rate. In sample testing, we noted transactions were posted to the state's accounting system between October 2003 and June 2004 at the wrong FMAP rate. In June 2004, department fiscal personnel manually adjusted the state's accounting records to properly reflect the federal fiscal year 2003-04 FMAP in the allocation of costs to federal and state funds.

Questioned Costs: No questioned costs identified.

Context: The use of the incorrect FMAP rate is considered an isolated incident. However, department officials rely on the foster care subsystem to allocate cost to funding sources in a manner that maximizes the use of non-General Fund money.

Effect: The potential exists for an incorrect FMAP rate to be used by the department, but not be detected in a timely manner.

Cause: We discovered the FMAP had been coded incorrectly on the department's subsystem used by the foster care program. In the interface between the subsystem and the state's accounting system, the funding split from the subsystem overrides FMAP coding in the state's accounting records. The department did not identify the cause of the error, since the FMAP for the period had been coded correctly on the state's accounting system.

Recommendation: We recommend the Department of Public Health and Human Services establish controls to ensure the federal share of foster care benefits is recorded at the correct rate on the foster care subsystem and on the state's accounting system.

Section III - Federal Award Findings and Questioned Costs

Finding 2-26: U.S. Department of Education
CFDA #84.126, Rehabilitation Services – Vocational Rehabilitation Grants to States

Criteria: Federal regulation, 34 CFR 80.20(a)(1), requires the Department of Public Health and Human Services (department) establish fiscal control and accounting procedures sufficient to permit preparation of reports required for the vocational rehabilitation program.

Condition: The department submits the RSA-2 Program Cost Report for the program each federal fiscal year. We noted that the federal fiscal year 2003-04 RSA-2 report was submitted with five line items reporting the same numbers as the federal fiscal year 2002-03 report.

Questioned Costs: No questioned costs identified.

Context: In our previous audit, we reported a similar error on the federal fiscal year 2001-02 report. The department prepared the federal fiscal year 2002-03 report correctly.

Effect: The errors totaled $164,075 and netted to a $92,226 overstatement of reported expenditures.

Cause: Department personnel said the federal fiscal year 2003-04 numbers were reported in error.

Recommendation: We recommend the Department of Public Health and Human Services implement a procedure to review the Vocational Rehabilitation RSA-2 report to ensure the correct expenditures are reported.

Section III - Federal Award Findings and Questioned Costs

Finding 2-27: U.S. Department of Education
CFDA #84.126, Rehabilitation Services - Vocational Rehabilitation Grants to States

Criteria: Federal regulation, 34 CFR 361.64(a), requires the Department of Public Health and Human Services (department) to obligate each federal fiscal year's grant funds in the year of the award. Expenditures must be paid by the end of the subsequent year. Federal regulation, 34 CFR 76.707, indicates that if an obligation is for personal services by an employee of the state, the obligation is made when the services are performed.

Condition: We found the department charged vocational rehabilitation payroll expenditures to the federal fiscal year 2002-03 grant through the pay period ending February 21, 2004. For the federal fiscal year 2003-04 grant, payroll charges were recorded through the pay period ending February 21, 2005.

Questioned Costs: We question $17,489 and $1,780 in payroll costs charged to CFDA #84.126 in federal fiscal years 2002-03 and 2003-04, respectively.

Context: In our previous audit, we recommended the department limit payroll charges to those incurred within a grant period. The department responded by finding errors and posting adjustments to the accounting records later in the state fiscal year. However, the department did not correct the state's accounting records prior to filing the annual report.

Effect: Payroll expenditures were overcharged in federal fiscal years 2002-03 and 2003-04, resulting in questioned costs.

Cause: A department budget analyst said the department did not deactivate accounting system codes linking the payroll expenditure to the account for the previous year's federal grant. Consequently, these expenses could still post to the prior year grant. In addition, regional supervisors, who are required to review employee timesheets and accounts charged, did not detect the errors, the analyst said.

Recommendation: We recommend the Department of Public Health and Human Services charge payroll costs to the proper federal grant.

Section III - Federal Award Findings and Questioned Costs

Finding 2-28: Various Federal Agencies
CFDA #Various, Research and Development Cluster

Criteria: OMB Circular A-133, Subpart D, Section .400(d)(4), requires The University of Montana (university) to ensure subrecipients, expending federal awards in excess of certain limits during the subrecipient's fiscal year, have met the audit requirements for that fiscal year. The March 2004 Compliance Supplement, page 3-M-1, requires the university to perform procedures to provide reasonable assurance the subrecipient obtains required audits and takes appropriate action on audit findings. The May 2005 Compliance Supplement did not modify this requirement.

Condition: The University does not have adequate controls over subrecipient monitoring. University personnel only obtained the audit reports of subrecipients available at the time the subgrant agreement was signed.

Questioned Costs: No questioned costs identified.

Context: Subrecipient monitoring procedures for 15 of the University's 317 subrecipients were reviewed. In each instance controls were inadequate.

Effect: The potential exists for university personnel to be unaware of subrecipient noncompliance with federal regulations, including questioned costs.

Cause: University personnel obtain audit reports available at the time the subgrant agreement is signed. Subsequent reports are only obtained when a new agreement is negotiated.

Recommendation: We recommend The University of Montana establish additional internal controls to ensure compliance with federal regulations concerning subrecipient monitoring.

Section III - Federal Award Findings and Questioned Costs

Finding 2-29: Various Federal Agencies
CFDA #Various, Research and Development Cluster

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires The University of Montana (university) to maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. The grant agreements for individual federal research and development grants administered by the university require technical and performance reporting. The agreements state when the reports should be submitted.

Condition: The University does not have adequate controls to ensure compliance with technical and performance reporting requirements.

Questioned Costs: No questioned costs identified.

Context: Three of the 14 largest federal grants were reviewed for the completion of special tests and provisions, which consisted of technical and performance reporting requirements. In all three instances, reports were not submitted timely.

Effect: Untimely completion of technical and performance reports limits the university's ability to draw cash as soon as allowed.

Cause: In two instances, the Principle Investigators (PI) responsible for submitting the reports overlooked the deadline. In the third instance, the PI believed the report deadline had been extended when a new agreement was established.

Recommendation: We recommend The University of Montana establish additional internal controls to ensure compliance with federal regulations concerning technical and performance reporting.

Section III - Federal Award Findings and Questioned Costs

Finding 2-30: Various Federal Agencies
CFDA # Various, Research and Development Cluster

Criteria: The March 2004 Compliance Supplement, page 3-H-1, requires Montana State University (university) to liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. The May 2005 Compliance Supplement did not modify this requirement. University procedures require the use of a close-out checklist to ensure all grant agreement requirements have been met, all financial and technical reports were submitted, indirect costs were properly calculated, cost sharing was met, and accounting records were reconciled to the grant documentation.

Condition: The university did not comply with federal regulations or university policy related to liquidating all obligations and grant close-out.

Questioned Costs: No questioned costs identified.

Context: Of the 63 grants reviewed, one SF269 was submitted three months late and one grant was billed four months late. Also, five had incomplete grant close-out checklists.

Effect: There is increased risk the federal government will deny payment for expenditures that were allowable during the award period if reports are not submitted timely. Incomplete grant close-out checklists may result in grant accounts not being zeroed out when the grant is closed.

Cause: University personnel have improved controls and compliance with federal regulations since the last audit; however, they were not able to demonstrate compliance with all university control procedures and federal regulations.

Recommendation: We recommend Montana State University liquidate all grant obligations incurred under an award not later than 90 days after the end of the funding period and ensure the grant close-out checklist is complete.

Section III - Federal Award Findings and Questioned Costs

Finding 2-31: U.S. Department of Housing and Urban Development
CFDA #14.239, Home Investments Partnership Program

Criteria: OBM Circular A-133, Subpart C, Section .300(b), requires the Department of Commerce (department) to maintain internal control over federal programs that provides reasonable assurance the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. The March 2004 Compliance Supplement, page 3-I-1, prohibits the department from contracting with parties that are suspended or debarred from participating in federal programs. The May 2005 Compliance Supplement did not modify this requirement.

Condition: The department does not have controls in place to ensure subgrantees are not debarred or suspended from participating in federal programs.

Questioned Costs: No questioned costs identified.

Context: During fiscal years 2003-04 and 2004-05, the department subgranted a total of $5,259,412 to 14 local governments and $4,029,409 to 10 non-profit organizations.

Effect: There is increased risk the department could subgrant to a debarred or suspended entity.

Cause: Department personnel stated they primarily grant funds to local governments and did not believe there was a risk these entities would be debarred or suspended. Personnel also noted the local governments and non-profit organizations have procedures in place to ensure recipients ultimately receiving the funds are not debarred or suspended.

Recommendation: We recommend the Department of Commerce develop and implement procedures to ensure it complies with federal requirements prohibiting contracting with suspended and debarred entities.

Section III - Federal Award Findings and Questioned Costs

Finding 2-32: U.S. Department of Housing and Urban Development
CFDA #14.228, Community Development Block Grants/State's Program

Criteria: Federal regulation, 24 CFR 91.520(a), requires the Department of Commerce (department) to annually report the resources made available, the investment of available resources, and the geographic distribution and location of investments on a performance report.

Condition: The department did not accurately prepare the Performance and Evaluation report.

Questioned Costs: No questioned costs identified.

Context: The reports due March 30, 2004 and 2005 contained a combined total of 469 lines. Of these, 31 lines reported the incorrect amount.

Effect: Noncompliance with federal reporting requirements.

Cause: Department personnel included transactions that should have been included on the previous or subsequent report in error.

Recommendation: We recommend the Department of Commerce accurately report current year distributions on the Community Development Block Grant Performance and Evaluation Report.

Section III - Federal Award Findings and Questioned Costs

Finding 2-33: Various Federal Agencies
CFDA # Various

Criteria: OMB Circular A-87, Attachment A, Section C(1)(c), indicates that to be allowable, costs must be authorized or not prohibited under state laws or regulations. State and Office of Public Instruction (office) travel policies provide rules and regulations related to per diem, lodging, transportation, and miscellaneous travel expenditures.

Condition: We reviewed 15 travel claims for meetings and conferences that office personnel attended during fiscal year 2004-05. We found that nine of the 15 claims, documentation attached was not always detailed enough at the time of payment to demonstrate compliance with state law and policy. We found instances where employees claimed meals when meals were provided as part of the conferences and employees claimed meals and lodging that, based on documentation, was not clearly during office time. In one instance, there was no receipt for a miscellaneous purchase over the $25 limit. Policy allows employees to arrive early or stay later if they determine it is cost effective. We did not find documentation showing calculations of cost efficiency. Based on attached documentation we could not verify how the office had determined cost efficiency.

Questioned Costs: We question costs of $841, but estimate potential questioned costs exceed $10,000.

Context: The reimbursement requests contained in the vouchers totaled $6,254, of which $841 should not have been reimbursed.

Effect: The office does not have adequate controls in place to ensure travel claims are accurate and comply with state laws and policies, resulting in noncompliance with federal regulations.

Cause: Supervisors reviewing the documentation did not always review the claim thoroughly before approving it.

Recommendation: We recommend the Office of Public Instruction improve controls over travel expenditures to ensure it complies with state law and policy.

Section III - Federal Award Findings and Questioned Costs

Finding 2-34: U.S. Department of Education
CFDA #84.027, Special Education Grants to States
CFDA #84.323, Special Education – State Personnel Development
CFDA #84.348, Title I Accountability Grants

U.S. Department of Agriculture
CFDA #10.553, 10.555, 10.559, Child Nutrition Cluster

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Office of Public Instruction (office) to maintain internal controls over federal programs that provides reasonable assurances that the office is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. OMB Circular A-133, Subpart C, Section .400(d)(3) and (4), requires the office to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements and ensure subrecipients expending federal awards in excess of certain limits during the subrecipient's fiscal year have met audit requirements.

Condition: Office personnel manually create a list of entities other than school districts receiving federal funds as subrecipients. The procedures for compiling the list did not identify all subrecipients during the audit period.

Questioned Costs: No questioned costs were identified.

Context: The office monitors approximately 500 school districts and 50 other entities on an annual basis. The subrecipient lists did not include 10 subrecipient entities.

Effect: There is increased risk of the office not detecting noncompliance or questioned costs occurring at the subrecipient level.

Cause: Office personnel stated they were unable to query the state's accounting system to identify all subrecipients. Personnel also stated there could be timing differences between when the subgrantee list was compiled and when the subgrantee received funds.

Recommendation: We recommend the Office of Public Instruction improve controls over federal requirements related to subrecipient monitoring.

Section III - Federal Award Findings and Questioned Costs

Finding 2-35: U.S. Department of Education
CFDA #84.010, Title I Grants to Local Education Agencies
CFDA #84.027, Special Education Grants to States
CFDA #84.367, Improving Teacher Quality Grants

U.S. Department of Agriculture
CFDA #10.555, National School Lunch Program

Criteria: OMB Circular A-133, Subpart C, Section .300(b), states the Office of Public Instruction (office) shall maintain internal controls over federal programs that provides reasonable assurances that the office is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. The Cash Management Improvement Act Treasury-State Agreement (CMIA), paragraph 8.1.2, requires the state to maintain information on disbursements and receipts of funds to verify the implementation of any funding technique and document interest liabilities. For each disbursement, the state shall be able to identify the amount of the issuance, date of issuance, date federal funds are received and credited to a state account, amount of federal funds received, and date funds were requested. Paragraph 6.3.2 identifies how the state should apply the funding techniques to the awards contained in the agreement and paragraph 6.2.2 describes the funding techniques.

Condition: The office did not comply with the CMIA Treasury-State agreement. The office made various errors including late draws, draws made as two draws rather than one, draws for more or less than expenditures incurred, and reported disbursements or receipts not tying to the accounting records for dates they occurred or amounts recorded.

Questioned Costs: No questioned costs were identified.

Context: The office received $132,715,742 in federal revenues in fiscal year 2003-04, of which, $94,634,017 related to programs covered under the CMIA. Fiscal year 2004-05 federal revenues were $138,305,668, of which $101,380,045 related to programs covered by the CMIA.

Effect: Noncompliance with the CMIA Treasury-State Agreement and increased risk of the state owing interest to the federal government.

Cause: The office cited various reasons for not complying with the CMIA, including efforts to minimize interest owed to the federal government, and they believed changes were made to the Treasury-State Agreement.

Recommendation: We recommend the Office of Public Instruction improve controls over federal requirements related to cash management.

Section III - Federal Award Findings and Questioned Costs

Finding 2-36: U.S. Department of Education
CFDA #84.186, Safe and Drug-Free Schools and Communities – State Grants
CFDA #84.298, State Grants for Innovative Programs
CFDA #84.352, School Renovation Grants
CFDA #84.367, Improving Teacher Quality State Grants

Criteria: Federal regulation, 34 CFR 85.305, states the Office of Public Instruction (office) cannot grant funds to an excluded (suspended and debarred) party, unless they have obtained an exception by the U.S. Department of Education.

Condition: The office relied on assurances from each subgrantee and did not verify the information through the federal suspended and debarred party list or other means. As a result, the office subgranted funds to a debarred and suspended party. The office did not obtain an exception from the U.S. Department of Education to do this.

Questioned Costs: We question costs of $45 charged to CFDA #84.186, $1,377 charged to CFDA #84.298, $34,323 charged to CFDA #84.352, and $454 charged to CFDA #84.367.

Context: The State of Montana has 345 administrative units within its public school districts. There is one operating school on the excluded party list.

Effect: The office was reimbursed by the federal government for unallowable expenditures.

Cause: The office obtained a form from the entity indicating they were not a suspended or debarred party, but did not verify the information.

Recommendation: We recommend the Office of Public Instruction improve controls over federal requirements related to suspended and debarred parties.

Section III - Federal Award Findings and Questioned Costs

Finding 2-37: U.S. Department of Transportation
CFDA #20.600, 20.602, 20.603, 20.604, 20.605, Highway Safety Cluster

Criteria: According to OMB Circular A-87, Attachment A, Section C(h) and (j), the Montana Department of Transportation (department) is required to have adequate documentation for costs to be considered allowable. In addition, costs must not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period. The department can use Montana Highway Patrol (MHP) expenditures above the 1997 level for state match.

Condition: Except for the Planning and Administration portion of the Highway Safety Cluster, the amounts claimed as match for the grant periods ending during our audit period were not supported. Department personnel told us the match amounts used were based on the amount of match needed per the National Highway Traffic Safety Administration Grant Tracking System and represented MHP expenditures from state funds. When we performed the audit the department did not have documentation as to what the 1997 MHP expenditure level was, what the total state MHP expenditures were for the grant period ending in state fiscal year 2003-04, and how much, if any, of the state's MHP expenditures were used as match for other federal assistance programs during the grant period ending in state fiscal year 2003-04.

Questioned Costs: We question costs of $1,433,576 and $1,366,787 in fiscal years 2003-04 and 2004-05, respectively.

Context: The match provided for the portions of the award requiring match, other than Planning and Administration, was not adequately supported.

Effect: Without support for the match, the department can't claim the federal expenditures, resulting in questioned costs.

Cause: Department personnel thought their documentation adequately supported the match. Also, not all the documentation requirements are addressed in the Highway Traffic Safety Program's procedures manual.

Recommendation: We recommend the Montana Department of Transportation:

A. Evaluate, implement, and monitor compliance with control procedures to ensure compliance with federal requirements and Highway Traffic Safety Program policy.

B. Document support for match claimed.

Section III - Federal Award Findings and Questioned Costs

Finding 2-38: U.S. Department of Transportation
CFDA #20.205, Highway Planning and Construction

Criteria: The Davis-Bacon Act requires the Montana Department of Transportation (department) pay wages to highway construction workers and mechanics at not less than the prevailing wage established by the U. S. Department of Labor. Federal regulation, 29 CFR 5.2, implementing the Davis-Bacon Act, requires any subcontract (at any level or tier) let under a prime contract be subject to those requirements. Department policy states, "Do not allow any Subcontractor to start work until its subcontract is approved by the construction engineer in Helena." The department's Construction Bureau documents its approval of a subcontractor by issuing a consent letter. The department's Civil Rights Bureau (CRB) receives a copy of all subcontractor consent letters from the Construction Bureau.

Condition: The department's policy on approving subcontracts to ensure all subcontractors comply with federal Davis-Bacon Act requirements for the Highway Planning and Construction Program is not clear. The department's CRB is responsible for the department's compliance with Davis-Bacon Act requirements. CRB personnel use the consent letters to identify which subcontractor payrolls they should expect to receive and to investigate if the payrolls have not been received. Since payrolls are received by CRB through the project engineers for all contractors and subcontractors, CRB may receive payrolls for subcontractors regardless of whether it has received a copy of the consent letter.

Questioned Costs: No questioned costs identified.

Context: Of seven active project files reviewed for fiscal years 2003-04 and 2004-05, two projects each had one subcontractor that was not approved. The Construction Bureau issued no consent letter for these subcontractors. A similar problem was noted in the prior audit.

Effect: The CRB may not be aware of all subcontractors working on a project. Without consent letters for all subcontractors, the CRB cannot identify missing payrolls and ensure compliance with Davis-Bacon Act requirements.

Cause: In September 2000, the Construction Bureau issued a memorandum to clarify when a subcontract must be submitted for approval. That memorandum stated, "Third, fourth, etc. tier subcontractors DO NOT need an approved contract." Because policy is not clear regarding these requirements, the Construction Bureau does not issue consent letters for all subcontractors.

Recommendation: We recommend the Montana Department of Transportation clarify its policies on approving subcontracts to ensure compliance with federal Davis-Bacon Act provisions.

Section III - Federal Award Findings and Questioned Costs

Finding 2-39: U.S. Department of Transportation
CFDA #20.205, Highway Planning and Construction

Criteria: The Cash Management Improvement Act (CMIA) Treasury-State Agreements for fiscal years 2003-04 and 2004-05 required the Montana Department of Transportation (department) to request funds on Wednesday each week for construction, consultant and payroll costs incurred the previous Wednesday through Tuesday.

Condition: The department did not request funds the first week of each month. There were often two draws performed in the second week of the month: one for the end of the previous month not covered by the last draw and one for the first through the current date of the new month. Department personnel said they sometimes draw for the end of the previous month earlier, but must draw for the end of the previous month separately from the beginning of the current month with the system they have.

Questioned Costs: No questioned costs identified.

Context: No cash draw requests for construction, consultant and payroll costs were made during the first week of each month in fiscal year 2004-05. We believe this issue existed in fiscal year 2003-04 as well. The costs incurred that should have been drawn during the first week of each month are typically smaller than for other weeks due to the timing of contractor payments and payroll.

Effect: The department lost an estimated $17,673 in investment earnings during fiscal year 2004-05 as a result of not drawing federal funds in accordance with the CMIA agreement.

Cause: Department personnel stated the system they compile expenditure amounts from goes through a closing process each month. The system was not closed in time to complete a draw the first week of the month.

Recommendation: We recommend the Montana Department of Transportation establish management controls to ensure compliance with applicable federal cash management requirements.

Section III - Federal Award Findings and Questioned Costs

Finding 2-40: U.S. Department of Transportation
CFDA #20.205, Highway Planning and Construction
CFDA #20.607, Alcohol Open Container Requirements
CFDA #20.608, Minimum Penalties for Repeat Offenders for Driving While Intoxicated

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Montana Department of Transportation (department) to maintain internal control over federal programs to provide reasonable assurance the department is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. OMB Circular A-87, Attachment A, Section C(a), requires costs be necessary and reasonable to be allowable.

Condition: The department charges projects for materials testing based on a rate calculated prior to the beginning of each fiscal year. For fiscal year 2004-05, the estimated Materials Bureau costs of $1,672,494 were divided by estimated contractor payments of $291,768,995 to obtain a materials testing rate of 0.57 percent. The department applied a 7.89 percent rate for materials testing to its projects, instead of the calculated 0.57 percent rate.

Questioned Costs: We question $14.24 million in costs charged to CFDA #'s 20.205, 20.607 and 20.608 in fiscal year 2004-05.

Context: The department estimated $1.67 million in materials testing costs in fiscal year 2004-05. The department collected approximately $14.24 million more than it should have.

Effect: The department overbilled the federal government by $14.24 million.

Cause: Department personnel believe this error occurred because of a lack of proper internal controls. The department has no procedures to ensure the rate input into the computer table used to charge projects for materials testing was the rate calculated and reviewed by department personnel.

Recommendation: We recommend the Montana Department of Transportation implement control procedures over materials testing project charges to ensure compliance with federal cost allowability requirements.

Section III - Federal Award Findings and Questioned Costs

Finding 2-41: U.S. Department of Transportation
CFDA # Various

Criteria: State law requires the Montana Department of Transportation (department) to, in accordance with appropriate federal regulations and guidelines, negotiate indirect cost reimbursement amounts and methodologies and recover indirect costs of federal assistance programs. OMB Circular A-87, Attachment A, Section C(3)(b) and (d), requires all activities that benefit from the department's indirect costs to receive an appropriate allocation of indirect costs, and requires the department to prepare a cost allocation plan in accordance with the circular's Attachment E. Attachment E, Section D(2)(a), requires the department to submit work sheets that are reconciled to the accounting records with the indirect cost proposal.

Condition: The department's cost allocation plans for fiscal years 2003-04 and 2004-05 did not comply with federal requirements. The plan for fiscal year 2004-05 did not include the carry forward of over or under recovery of indirect costs from fiscal year 2002-03. Additionally, the data used to calculate the indirect cost rates for fiscal years 2003-04 and 2004-05 was not reconciled to the accounting records and the rates calculated did not result in an equitable allocation of indirect costs to all programs. The department initially calculated an under recovery of indirect costs of $3,303,064 for fiscal year 2002-03 and $12,560,041 for fiscal year 2003-04, which it included in the fiscal year 2005-06 indirect cost rate calculation. These under recoveries of indirect costs were calculated by comparing federal indirect cost recoveries to total indirect costs incurred. This calculation did not consider the state's share of indirect costs. When the department subsequently recalculated its over or under recoveries, it found it had over recovered indirect costs of $6,385,997 for fiscal year 2002-03 and $1,446,199 for fiscal year 2003-04.

Questioned Costs: We believe the department's indirect costs are disproportionately charged to federal funds by more than $10,000, so we question the allowability of the department's federal indirect cost charges.

Context: The department recovered federal indirect costs of approximately $34 million in each fiscal year 2003-04 and 2004-05.

Effect: Errors in the indirect cost rate calculations and application can result in over or under recoveries of indirect costs and can cause a disproportionate share of indirect costs to be charged to federal funds.

Cause: Department stated they did not know why the errors were not identified during their review or the Federal Highway Administration's subsequent review of the cost allocation plans prior to the rates being approved.

Recommendation: We recommend the Montana Department of Transportation calculate indirect cost rates in accordance with federal regulations and state law.

Section III - Federal Award Findings and Questioned Costs

Finding 2-42: U.S. Department of Homeland Security
CFDA #97.004, 97.042, 97.053, 97.067, Homeland Security Cluster

Criteria: OMB Circular A-133, Subpart D, Section .400(d)(3), requires the Department of Military Affairs (department) to monitor the activities of its subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition: The department developed a subrecipient monitoring plan, but did not conduct the subrecipient monitoring activities specified in that plan.

Questioned Costs: No questioned costs identified.

Context: The department expended approximately $26 million under this award in fiscal years 2003-04 and 2004-05 combined. Of this, approximately $17 million was disbursed to subrecipients.

Effect: The department did not comply with federal regulations.

Cause: Department personnel said they tried to hire an additional employee to assist with subrecipient monitoring, but have been unsuccessful.

Recommendation: We recommend the Department of Military Affairs implement a subrecipient monitoring program for those entities receiving Homeland Security grant funds as required by federal regulation.

Section III - Federal Award Findings and Questioned Costs

Finding 2-43: U.S. Department of Labor
CFDA #17.207, Employment Service
CFDA #17.225, Unemployment Insurance

Criteria: The Cash Management Improvement Act (CMIA) Treasury-State Agreement, Sections 6.1.1 and 6.1.2, require the Department of Labor and Industry (department) to request federal funds to ensure the funds will be received and credited to a state account by the times specified in the funding technique or specified clearance pattern noted in the agreement for the federal programs administered by the department.

Condition: The department did not comply with the CMIA. The Unemployment Insurance (UI) program used a 15-day rather than 4-day clearance pattern for benefit payments in fiscal year 2003-04. In fiscal year 2004-05, a 20-day pattern was required for benefit payments and a 15-day pattern was used. The Employment Services direct administration costs used a fixed interval weekly pattern in fiscal year 2003-04, when the agreement required the actual clearance pattern technique be used.

Questioned Costs: No questioned costs identified.

Context: Annually, the department pays out approximately $79 million in UI benefits and $6.2 million in Employment Services administrative expenditures.

Effect: The department is not in compliance with the CMIA agreement.

Cause: Department personnel stated the noncompliance resulted from changes made to the CMIA agreements. No changes in the federal program occurred to warrant any of the changes. The department communicated their concerns to the Department of Administration, the department responsible for negotiating the agreement. The Department of Administration agreed the changes were in error, but it was too late to submit an amendment in fiscal year 2003-04. The Department of Administration did submit corrections to the agreement effective July 1, 2005, which have been approved and corrected all but the fiscal year 2004-05 UI issue.

Recommendation: We recommend the Department of Labor and Industry continue to work with Department of Administration personnel to ensure the CMIA agreement terms are reasonable for the department's federal programs included in the agreement and comply with the terms of the Cash Management Improvement Act agreement.

Section III - Federal Award Findings and Questioned Costs

Finding 2-44: U.S. Department of Labor
CFDA #17.207, Employment Service

Criteria: The March 2004, Compliance Supplement, page 3-I-1, requires the Department of Labor and Industry (department) to use the same state policies and procedures used for procurements from non-federal funds. The May 2005 Compliance Supplement did not modify this requirement.

Condition: We found the department did not follow department and state purchasing regulations. The department paid one vendor $31,416 for printing services on 36 separate invoices. Department and state purchasing policy require all printing services, with the exception of business cards, go through the Department of Administration's Procurement and Printing Division. Since the total cost was over $25,000, the project should have gone through competitive bid procedures as required by purchasing policies.

Questioned Costs: We question costs of $31,416 in printing services payments charged to CFDA #17.207 for failure to comply with state purchasing and procurement policies.

Context: In our review of 11 purchasing vouchers, we noted one purchase that did not follow state and department purchasing regulations.

Effect: The department did not comply with department and state purchasing and procurement policies and, therefore, is also not in compliance with federal procurement requirements, resulting in questioned costs.

Cause: Department officials had already determined the printing service payments were not in compliance with purchasing regulations. Since the discovery of this issue, the department has provided training to department personnel on purchasing regulations and is considering additional control procedures that would detect and prevent similar situations in the future.

Recommendation: We recommend the Department of Labor and Industry follows department and state purchasing rules and regulations for all applicable purchases.

Section III - Federal Award Findings and Questioned Costs

Finding 2-45: U.S. Environmental Protection Agency
CFDA #66.458, Capitalization Grants for Clean Water State Revolving Funds
CFDA #66.468, Capitalization Grants for Drinking Water State Revolving Funds

Criteria: Federal regulation, 40 CFR 31.41(b)(3), requires the Department of Environmental Quality (department) to submit Financial Status Reports 90 days after the grant year-end.

Condition: The department did not submit financial status reports due September 30, 2004, as required. Of the ten reports required, two were submitted timely, two were between six and seven months late, and six have yet to be submitted.

Questioned Costs: No questioned costs identified.

Context: A total of ten reports were due on September 30, 2004; two were submitted by the deadline.

Effect: Noncompliance with federal reporting requirements.

Cause: Department officials stated they had requested an extension until December 31, 2004; however, they could not provide documentation the extension was approved. Department personnel also stated that staff turnover in the position preparing the reports, as well as within the Management Services Division, caused the reports to be submitted later than the September 30, 2004 deadline. The department plans to submit the remaining six reports for fiscal year 2003-04 with the fiscal year 2004-05 reports, due September 30, 2005.

Recommendation: We recommend the Department of Environmental Quality file federal Financial Status Reports as required by federal regulations.

Section III - Federal Award Findings and Questioned Costs

Finding 2-46: Various Federal Agencies
CFDA # Various

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Administration (department) to maintain internal control over federal programs that provides reasonable assurance the federal awards are managed in compliance with laws, regulations, and the provisions of the contracts or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 31 CFR 205.7(c), requires the Treasury-State Agreement be amended as needed to change or clarify its language when the terms of the existing agreement are either no longer correct or no longer applicable. It also requires the department to notify the U.S. Department of the Treasury within 30 days of becoming aware of a change. Federal regulation, 31 CFR 205.29(b), requires the department to maintain records supporting interest calculations, clearance patterns, interest calculation costs, and other functions directly pertinent to the implementation and administration of the Cash Management Improvement Act (CMIA). The department is to maintain these records for at least three years after the submission of its annual report. The Treasury-State Agreement states no interest liability will be incurred on cash drawn on federal programs if they are drawn in accordance with the agreement

Condition: The department prepares the Treasury-State Agreement and administers the CMIA for the state of Montana. The department does not have adequate controls in place to ensure compliance with federal regulations regarding the CMIA. We identified instances where the department was aware of information contained in the fiscal year 2003-04 Treasury-State Agreement that was incorrect, but the department did not make the required notification to the U.S. Department of the Treasury. The department also did not have supporting documentation for these instances. The department distributes interest calculation spreadsheets to the agencies to use in tracking the timing and amount of cash draws throughout the fiscal year. The spreadsheets specify what the clearance pattern and cash draw technique is for that federal program. The spreadsheet also contains formulas that calculate the interest liability due to or from the federal government based on the timing and amount of the draws. The department then uses these spreadsheets to accumulate the total interest due to or from the federal government for the fiscal year and to prepare the annual report. We identified instances where the department distributed interest calculation spreadsheets containing clearance patterns and draw techniques that did not correspond to the fiscal year 2003-04 Treasury-State Agreement.

Questioned Costs: No questioned costs identified.

Context: In our review of the fiscal year 2003-04 Treasury-State Agreement we identified instances affecting six state agencies and approximately twenty programs for which there were problems in the specific terms of the agreement and related spreadsheets for which the department did not have supporting documentation.

Effect: The department is not in compliance with OMB Circular A-133, 31 CFR 205.7(c), 31 CFR 205.29(b), and the Treasury-State agreement. The fiscal year 2003-04 interest liability for the state of Montana was not calculated in accordance with the approved fiscal year 2003-04 Treasury-State Agreement.

Cause: The department experienced a transition in management responsible for this activity. Department personnel indicated they believed the errors in the agreement had been corrected. Department personnel believe if the agreement had been sent out for review by the agencies, as it should have been, the majority of the errors would have been detected and corrected up front. Department personnel also indicated they were not aware of the requirement to notify the federal government in writing within 30 days of becoming aware of a change. Department personnel indicated the majority of the errors were a result of a department employee having difficulties with the new federal contract development system. The system contains numerous drop down panels for selecting federal programs, funding techniques, clearance patterns, etc. Methods chosen from the drop down panels were incorrect, so the department's documentation does not support those methods. Department personnel indicated the interest calculation spreadsheets distributed for use by the agencies reflected the way the state actually did business. As a result, department personnel believe the fiscal year 2003-04 interest liability for the state of Montana was calculated accurately.

Recommendation: We recommend the Department of Administration establish controls to ensure:

A. The federal government is notified of changes in the circumstances that affect the Treasury-State Agreement.

B. The maintenance of proper documentation of all changes to the Treasury-State Agreement.

C. The state/federal interest liability calculations included in the annual CMIA report submitted to the federal government are consistent with the approved Treasury-State Agreement.

Section III - Federal Award Findings and Questioned Costs

Finding 2-47: U.S. Department of Interior
CFDA #15.605, 15.611, Fish & Wildlife Cluster

Criteria: Federal regulation, 43 CFR 12.75, prohibits the Department of Fish, Wildlife and Parks (department) from entering into contracts or other transactions with entities that are suspended or debarred from receiving federal funds. This regulation applies to transactions for $25,000 or more. Department policy requires review of the federal government's *Excluded Parties List System (EPLS)* prior to awarding a contract.

Condition: We reviewed the department's procedures for verifying its contractors are not suspended or debarred prior to paying them with federal funds. The department does not document its review for suspended and debarred parties. In addition, the department does not require vendors or contractors to certify they are not suspended or debarred.

Questioned Costs: No questioned costs identified.

Context: We reviewed 18 contracts involving federal funding and did not identify any suspended or debarred entities receiving payment from federal funds.

Effect: Without documentation that vendors and contractors are not suspended or debarred, the department cannot be assured it is in compliance with suspension and debarment regulations.

Cause: Department policy does not specifically require documentation be kept to demonstrate review of the *EPLS* occurred.

Recommendation: We recommend the Department of Fish, Wildlife and Parks document its review for suspension and debarment when awarding contracts to be paid with federal funds.

Section III - Federal Award Findings and Questioned Costs

Finding 2-48: Various Federal Agencies
CFDA # Various

Criteria: OMB Circular A-133, Subpart C, Section .300, requires the Department of Fish, Wildlife and Parks (department) to identify all federal awards received and expended and the federal programs under which they were received in the Schedule of Federal Assistance (SEFA) each fiscal year. In addition to expenditures, the SEFA includes other information such as the federal program name and Catalog of Federal Domestic Assistance (CFDA) number, and whether the money is received directly from the federal government or subgranted through another entity. State policy requires the department to reconcile the amounts presented on its SEFAs to the accounting records.

Condition: The department did not submit accurate and complete SEFAs for fiscal years 2003-04 and 2004-05. We reviewed these SEFAs and identified several types of errors. The fiscal year 2003-04 SEFA reported $6.6 million as CFDA #10.664 expenditures. Of this amount, approximately $2.1 million should have been reported under two other federal programs. The fiscal year 2004-05 SEFA did not report $3.3 million of CFDA #10.676 expenditures and was not completely reconciled to the accounting records. In addition to these errors, we noted CFDA numbers reported did not agree to those on grant award documents, CFDA numbers reported had no support in grant award files, and expenditures reported were not supported by accounting records and other supporting schedules. The number and type of errors we identified indicates the department's controls over the SEFA report should be improved.

Questioned Costs: No questioned costs identified.

Context: The department reported approximately $25.8 million and $25.2 million of expenditures on its SEFAs for fiscal years 2003-04 and 2004-05, respectively.

Effect: There is an increased risk that the department did not accurately report federal expenditures. One or more of the types of errors described above impacted approximately $20.7 million of reported expenditures for fiscal year 2003-04 and $9 million of reported expenditures for fiscal year 2004-05.

Cause: Documentation supporting the CFDA numbers and reported amounts was not maintained, the SEFAs were not completely reconciled to the accounting records, and no supervisory review occurred prior to submission of the SEFAs.

Recommendation: We recommend the Department of Fish, Wildlife and Parks improve its controls over the preparation of its annual Schedule of Expenditures of Federal Awards.

Section III - Federal Award Findings and Questioned Costs

Finding 2-49: U.S. Department of Interior
CFDA #15.611, Fish & Wildlife Cluster

Criteria: OMB Circular A-87, Attachment A, Section C(1)(j), requires the Department of Fish, Wildlife and Parks (department) to have adequate documentation for costs to be considered allowable.

Condition: We reviewed expenditure transactions during fiscal year 2003-04 and 2004-05. Three of the documents reviewed were payments to vendors under contract with the department where the invoices submitted violated the contract payment terms. In two cases, the vendor submitted invoices that did not correspond with the payment schedules contained in the contract. The third case involved an invoice submitted at a flat rate for services, but the contract directed payment on a "per item" basis. We determined that two of the vendors received $42,600 and $266,764, respectively, during the audit period. The department paid the first vendor using both state and federal money. Of the payments made to the first vendor, we reviewed invoices totaling $5,365, of which approximately 75 percent of these payments was charged to the Wildlife Restoration grant. The department paid the second vendor using general licensing moneys and no federal funds were involved.

Questioned Costs: Because these payments were not made in accordance with the governing contract terms, we question $4,024 of the costs charged to CFDA #15.611 during the two years under audit and believe potential questioned costs exceed $10,000.

Context: Of the 50 expenditure transactions reviewed, six involved exceptions.

Effect: Failure to compare vendor invoices to contracts or other governing documents increases the risk of erroneous or unsupported payments and resulted in questioned costs.

Cause: The employees who approved two of the contract invoices for payment were unaware of the respective contract provisions and in one case each of two employees thought the other was comparing the invoice to the contract. The employee responsible for approving the flat-rate invoice said the department had verbally negotiated the rates with the vendor and had forgotten to formally modify the contract.

Recommendation: We recommend the Department of Fish, Wildlife and Parks implement procedures to ensure claims are paid according to contract terms.

Section III - Federal Award Findings and Questioned Costs

Finding 2-50: U.S. Department of Interior
CFDA #15.605, 15.611, Fish & Wildlife Cluster
CFDA #15.615, Cooperative Endangered Species Conservation Fund

U.S. Department of Agriculture
CFDA #10.676, Forest Legacy Program

Criteria: OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Fish, Wildlife and Parks (department) to maintain internal control over federal programs that provides reasonable assurance the federal awards are managed in compliance with laws, regulations, and the provisions of the contracts or grant agreements that could have a material effect on each of its federal programs. The March 2004 Compliance Supplement, page 6-L-1, indicates that in establishing internal control over financial reporting, the objective for the department to meet is to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements. The May 2005 Compliance Supplement did not modify these objectives.

Condition: We reviewed eight reports submitted during fiscal years 2003-04 and 2004-05 for the Sport Fish Restoration and Cooperative Endangered Species Conservation Fund programs and found errors in four of them. The types of errors we identified included misclassified activity and unsupported amounts. Errors ranged from a low of $136 to a high of $311,058. We also reviewed a financial report submitted for a Forest Legacy Program grant. This report accurately reflected what should have been recorded on the department's accounting records, but because the preparer did not verify the reported activity with the accounting records, department personnel were unaware there was a $3,289,000 error in the accounting records until we brought it to their attention.

Questioned Costs: No questioned costs identified.

Context: Five of the nine reports reviewed either contained errors or were not supported by the accounting records.

Effect: The department has not complied with federal reporting requirements.

Cause: Department personnel could not explain why amounts reported did not agree to amounts recorded on the accounting records for reporting purposes or provide support for classification decisions. Personnel responsible for preparing these reports believed the reports were reviewed by staff working with the federal programs. However, through various discussions with department staff, we determined the financial reports were not reviewed prior to their submission to the federal government.

Recommendation: We recommend the Department of Fish, Wildlife and Parks implement controls over its federal financial reporting process.

Section III - Federal Award Findings and Questioned Costs

Finding 2-51: Various Federal Agencies
CFDA # Various

Criteria: The Cash Management Improvement Act Treasury-State Agreements (TSA) require the Department of Fish, Wildlife and Parks (department) to request funds for the Fish & Wildlife Cluster (CFDA #s 15.605 and 15.611) according to specific cash draw patterns by type of expenditure. OMB Circular A-102, Attachment, Section 2(a), requires the department to minimize the time between the receipt and the disbursement of federal funds not addressed in the TSA.

Condition: We reviewed 30 cash draws, 15 from each of the two fiscal years under audit, and found errors in 21. The types of errors included the following:

- Draws were for more cash than was required. The excess cash drawn totaled $74,500.
- Draws were for less cash than was required. The deficiencies totaled $209,600.
- Draws totaling $495,000 were unsupported. Department personnel could not explain why these amounts were drawn.
- Twenty of the draws did not properly include administrative costs. Administrative costs were not drawn and should have been, were drawn and should not have been, and were drawn in incorrect amounts.

In addition, we determined the department uses a single account to record the financial activity for the Fish and Wildlife Cluster as well as other federal grants. The cash draws for this account are made based on an analysis of cash balances and expenditures in total. The cash is drawn against one of the two large grants regardless of which federal grants have actually incurred the expenditures. During fiscal year 2003-04, department personnel prepared monthly reconciliations to determine which grants had incurred expenditures and determine appropriate credits and charges to the cash draw accounts maintained by the U.S. Treasury. We found those reconciliations were not used to adjust the cash draw accounts on a monthly basis and personnel informed us they have not reconciled fiscal year 2004-05 cash draws.

Questioned Costs: No questioned costs identified.

Context: The error rate in the sample indicates a systemic control issue exists at the department.

Effect: The department has not complied with federal cash management regulations or the TSA. In addition, because the reconciliations were not performed or used to correct cash draws, the department misled the federal government as to the use of the funds drawn.

Cause: Department personnel informed us that it is easier to draw money from the two large grants and then reconcile cash monthly because there isn't enough time to analyze each grant to determine how much cash is required on a daily basis.

Recommendation: We recommend the Department of Fish, Wildlife and Parks improve its controls over cash management to ensure compliance with the state's Treasury-State Agreement and other federal cash management regulations.

Section III - Federal Award Findings and Questioned Costs

Finding 2-52: Various Federal Agencies
CFDA # Various

Criteria: OMB Circular A-133, Section .300(b), requires the Department of Administration (department) to maintain internal control over federal programs that provides reasonable assurance the department is managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that have a material effect on each of its federal programs. Under provisions of the contract for the preparation, submission, and negotiation of the state's annual Statewide Cost Allocation Plan (SWCAP), the consultant is required to maintain records of the SWCAP and supporting information. OMB Circular A-87, Attachment C, Section D(4), requires all cost allocation plans be submitted within six months prior to the beginning of each of the state's fiscal years in which it proposes to claim central service costs. Extensions may be granted on a case-by-case basis.

Condition: We determined the department does not have an adequate control system in place to ensure compliance as required by federal regulations. Department personnel do not review the annual SWCAP prepared by the consultant or maintain documentation of control procedures performed by the consultant. We identified several errors, such as inclusion of $200 in unallowable costs and exclusion of $1,064 in allowable costs that could have easily been detected and corrected had adequate controls been in place. We determined 9,446 transaction lines were excluded from the data provided to the consultant, which could have been detected through a comparison of totals. In addition, the department could not provide supporting documentation for three of its allocation units. The department did not submit the SWCAPs for fiscal years 2002-03 and 2003-04 in the required timeframe. The fiscal year 2002-03 and 2003-04 SWCAPs were submitted 30 months late. The fiscal year 2004-05 SWCAP was 21 months late and the fiscal year 2005-06 SWCAP was 9 months late; however, the department subsequently received extensions.

Questioned Costs: No questioned costs identified.

Context: In the prior audit of the department, we recommended the department maintain records of the information provided to the consultant to document the state's compliance with terms of the SWCAP in the department's audit report for fiscal years 2002-03 and 2003-04. However, the most recently completed SWCAP that we audited for fiscal year 2004-05 had already been submitted at that time.

Effect: The department has not complied with federal regulations applicable to its indirect cost plan. In addition, without adequate controls in place, other instances of noncompliance can occur in the preparation of the SWCAP that may not be prevented or detected in a timely manner. The untimely submission of the annual the SWCAP has not affected the review and approval process as the federal government is behind schedule on their review and approval of SWCAPs.

Cause: During the audit period, the department experienced turnover in key positions. Employees new to these positions are unfamiliar with SWCAP process. Department personnel indicated control procedures have already been implemented to ensure compliance with federal regulations.

Recommendation: We recommend the Department of Administration establish procedures to ensure compliance with federal indirect cost requirements.

Section III - Federal Award Findings and Questioned Costs

Finding 2-53: U.S. Department of Agriculture
CFDA #10.025, Plant and Animal Disease, Pest Control, and Animal Care
CFDA #10.162, Inspection Grading and Standardization
CFDA #10.475, Cooperative Agreements with States for Intrastate Meat and Poultry Inspection

U.S. Department of Homeland Security
CFDA #97.004, State Domestic Preparedness Equipment Support Program

Criteria: OMB Circular A-87, Attachment A, Section E(1), indicates that to be allowable, direct costs charged by the Department of Livestock (department) must be identified specifically with a particular final cost objective. OMB Circular A-87, Attachment B, Section 8(h)(5)(e), indicates budget estimates or other distribution percentages determined before the services are performed do not qualify as support for personal services charges to federal awards.

Condition: The department cannot support personal services it allocated to its federal programs. The department used the three procedures to recover direct and indirect personal service costs from the federal government discussed below. None of the three procedures used are in compliance with federal regulations.

- The department negotiated an indirect cost proposal rate with the Federal Government for one of its federal grants. Rather than charging the negotiated rate, the department allocated one position in the Centralized Services Division (CSD) to the federal grant. The position in CSD did not work solely on the federal grant to which it was charged. The allocation of the position was intended to cover the indirect costs from the CSD for that federal grant.

- To recover indirect costs of the remaining federal grants, the department established budgets for each federal grant, including personal services from CSD. All CSD personnel recorded their time to the State Special Revenue Fund (SSRF) and do not track the time spent on each federal program. Throughout the year the department transfered personal service costs from the SSRF to the federal grant based on the established budget.

- The department established a budget for the direct personal service costs for the majority of its federal grants. Some of these personnel, who worked directly on the federal grants charged all of their time to the SSRF. During the year the department transferred the personal service costs from the SSRF to the federal grant based on the established budget of the federal grant rather than the hours department personnal worked on the federal program.

Questioned Costs: We question the allowability of personal services costs charged to the following federal programs in fiscal years 2003-04 and 2004-05: $298,986 to CFDA #10.025, $850 charged to CFDA #10.162, $113,800 to CFDA #10.475 and $5,000 charged to CFDA #97.004.

Context: Total combined expenditures incurred by the department in fiscal years 2003-04 and 2004-05 for each federal program are: $1,770,619 for CFDA #10.025, $72,131 for CFDA #10.162, $971,008 for CFDA #10.475 and $228,547 for CFDA #97.004.

Effect: The department did not comply with federal regulations, resulting in questioned costs.

Cause: Department personnel thought these methods of recovering costs were allowable according to federal regulations.

Recommendation: We recommend the Department of Livestock comply with federal regulations and:

A. Direct charge personal service costs to federal grants based on actual time spent by employees, and

B. Maintain documentation of hours worked.

Corrective Action Plan

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STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2005

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-1	97.004	The reports were submitted on 10/07/2004 by Military Affairs and remain current.	Dan McGowan, Administrator, Disaster and Emergency Services	Completed and Ongoing
Finding #2-2	97.046	The Department of Natural Resources and Conservation (DNRC), Fire Business Committee, has implemented a documentation process for fire meal payments.	Ted Mead, Chief, Fire & Aviation Mgmt. Bureau	July 1, 2005
Finding #2-3	14.246 84.352	The Department of Administration (DOA), Architecture and Engineering Division (A&E) will review existing policies and procedures with each project manager to help ensure 100% compliance with federal Davis-Bacon Act reporting requirements.	Tom O'Connell A & E, DOA	December 10, 2004
Finding #2-4	20.608	The DOA is reviewing all federal funding sources and will implement controls to ensure expenditures are in compliance with state and federal regulations. Training opportunities are also being sought to help program managers better manage these funds.	Jeff Brandt Inform. Tech. Serv. Div., DOA	November 1, 2004
Finding #2-5	16.710, 20.608	The importance of the proper completion of travel vouchers will be re-emphasized to all department employees and approving supervisors. Internal controls and procedures are also being reviewed to further ensure compliance with state travel policy.	Jeff Brandt Inform. Tech. Serv. Div., DOA	November 1, 2004
Finding #2-6	20.607, 20.608	The Montana Highway Patrol Division (MHP) operated within the guidelines provided by the grantor - Montana Department of Transportation. In the future, MHP will ensure that written direction and guidelines be provided by the grantor and MHP will operate within the guidelines provided.	Colonel Paul Grimstad, MHP	Implemented
Finding #2-7	10.665	As required by federal subrecipient monitoring requirements, the State Auditor's Office will contact the counties to ensure timely and appropriate action is taken on all audit findings. The contact will be made by telephone call to the county followed by a letter to document the discussion.	Patti Olson, Central Services Div., State Auditor	December 31, 2005

STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2005

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-8	10.664	DNRC has established separate orgs, funds, subclasses for each individual federal grant award.	Sue Clark, Chief, Business Management Bureau, DNRC	July 1, 2004
Finding #2-9	10.664	Federal reconciliation and cash draws are completed and submitted monthly for each individual grant award.	Sue Clark, Chief, Business Management Bureau, DNRC	July 1, 2004
Finding #2-10	10.664	The most recent census information is verified before finalizing an award. This is documented in each file	Ted Mead, Chief, Fire & Aviation Mgmt. Bureau, DNRC	July 1, 2004
Finding #2-11	10.664	Monthly verification of matching requirements will be conducted within the Forestry Division. Documentation of this will be included in all grant files.	Sue Clark, Chief, Business Management Bureau, DNRC	January 1, 2006
Finding #2-12	10.664	Federal reconciliation and cash draws are completed and submitted monthly for each individual grant award. Three separate fiscal personnel, within the DNRC, review these reports prior to submittal.	Sue Clark, Chief, Business Management Bureau, DNRC	July 1, 2004

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-13	10.557	A temporary staff person is assigned to review the past void/reissues to determine if inappropriate issuance occurred. The staff person will report findings to the Section Supervisor. The Information Services Unit (IS) is planning to develop improved void/reissue functionality for the local service delivery staff to utilize when infant and special formula food packages must be voided and reissued with a different infant or special formula. Installation of this upgrade should be completed by December 31, 2005 and eliminate the requirement for state staff to track void/reissue checks.	Marie Matthews, Fiscal Policy Advisor, DPHHS	December 31, 2005
Finding #2-14	10.557	A) A monitoring tracking spreadsheet has been developed and is reviewed by the Program Manager on a monthly basis to ensure timely review completion and results notification. Monitoring activities, including timely completion of reports has been included in employee performance appraisals. The DPHHS Internal Auditor will evaluate the success of the new tracking worksheet during a program review to be completed between October 1, 2006 and December 31, 2006. B) In May of 2005 USDA's Mountain Plains Regional Office performed a Management Evaluation. Following that review, the Public Health and Safety Division resumed the financial reviews required to be a component of local agency monitoring visits. The WIC State Plan (p. 3-B-34) describes the tasks being performed. "The administrative team member will also review original documents (timesheets/cards for WIC employees, telephone bill and how it is distributed among programs, bills for office supplies, rent, etc.) If rent is distributed among programs, written justification for the plan or method used will need to be available.A general guide is that the"paper trail" of expenses claimed must be easy to follow." C) The tracking spreadsheet has been modified to contain the number of clinic sites for a local agency and the minimum number of clinic sites, which must receive an on-site review during the monitoring visit. The program manager will review the tracking worksheet monthly.	Marie Matthews, Fiscal Policy Advisor, DPHHS	December 31, 2006 Completed December 31, 2006

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-15	10.557	The monitoring tracking spreadsheet, discussed in recommendation 2-14, includes is a listing for the receipt of a corrective action plan from the local agency. The spreadsheet is reviewed each month for late reports and responses. Division procedures require a letter to be sent if the corrective action plan has not been received by the 60-day deadline. Follow-up letters for all outstanding corrective action plans have been issued. The DPHHS Internal Auditor will evaluate the timeliness of corrective action plans during a program review to be completed between October 1, 2006 and December 31, 2006.	Marie Matthews, Fiscal Policy Advisor, DPHHS	December 31, 2006
Finding #2-16	10.557	In federal fiscal year 2006, five percent of the authorized retailers determined to be high-risk will be visited for a series of compliance investigations or for inventory audits. If the number of high-risk retailers does not equal five percent, the remaining slots will be selected randomly from authorized retailers. All compliance investigations will be completed in federal fiscal year 2006 and subsequent years. The DPHHS Internal Auditor will evaluate the sufficiency of the compliance investigations performed in federal fiscal year 2006 during a performance review to be completed between October 1, 2006 and December 31, 2006.	Marie Matthews, Fiscal Policy Advisor, DPHHS	December 31, 2006
Finding #2-17	10.557	A temporary staff person is assigned to review prior dual certification reports to eliminate false positives and research suspected positives. The duty will be returned to the staff member normally assigned to the task after the backlog has been cleared. Findings will be reported to the section supervisor. Local agencies will be notified to issue the appropriate sanctions as per the State Plan p. 3-B-20 under Participant Fraud/Abuse depending on whether the dual participation was intentional or unintentional. Participants found to be participating in more that one clinic site will be removed from at least one of the clinic sites. If the dual participation is intentional and/or the second offense, the participant will be disqualified for one year and requested to repay the over issued benefits.	Marie Matthews, Fiscal Policy Advisor, DPHHS	December 31, 2005

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-18	10.558	The Human and Community Service Division has completed additional training of all Child and Adult Care Food Program staff. Staff are now keeping copies of all application checklists and menu evaluations for reviewed menus in each provider file.	Marie Matthews, Fiscal Policy Advisor, DPHHS	Completed
Finding #2-19	Various	The Fiscal Policy Office will re-disseminate the policy to a broader audience. To help ensure the appropriate staff receive, understand and apply the policy, the Internal Auditor will perform a performance review of contract files across the agency.	Marie Matthews, Fiscal Policy Advisor, DPHHS	January 31, 2006
Finding #2-20	93.778	Disability Services Division management will clarify its requirements for provider invoice reviews and communicate their expectations to regional staff in writing.	Marie Matthews, Fiscal Policy Advisor, DPHHS	October 31, 2005
Finding #2-21	93.778	The Health Resources Division has developed a tracking sheet to document the receipt of cost reports. The related written procedures will be completed by December 31, 2005.	Marie Matthews, Fiscal Policy Advisor, DPHHS	December 31, 2005
Finding #2-22	93.778	The Health Resources Division will provide the drug utilization data to manufacturers within the timelines required by federal regulations, for all quarters in which the drug pricing data is received from the Centers for Medicare and Medicaid Services within the required 45 days from the end of the quarter.	Marie Matthews, Fiscal Policy Advisor, DPHHS	Completed

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-23	93.658	The Child and Family Services Division (CFSD) has and will continue to pursue improvements designed to help ensure permanency planning hearings occur as required by federal regulation. The division has provided training on the importance of annual permanency hearings and standardized court order language. Improved management reporting tools will provide more efficient tracking, monitoring and supervisory review. Senate Bill 119 passed during the 2005 Legislative Session authorizes a foster care review committee or a citizen review board to conduct a permanency hearing subject to approval by the court. If and when utilized, this increased flexibility may assist the scheduling pressures within the district courts.	Marie Matthews, Fiscal Policy Advisor, DPHHS	Completed
Finding #2-24	93.658	A) The Child and Family Services Division (CFSD) has put procedures in place to ensure that foster care case files are reviewed as required by federal regulations. B) The CFSD has put procedures in place to ensure that the department complies with the state administrative rules until such time that the rules can be amended to be no less restrictive than the federal rules.	Marie Matthews, Fiscal Policy Advisor, DPHHS	Completed
Finding #2-25	93.658	The CFSD implemented new procedures, which will require the Operations and Fiscal Bureau Chief review the federal share rate worksheet prior to inclusion in the foster care subsystem. The division will periodically test payment records from the state's accounting system to ensure the correct rates are being used.	Marie Matthews, Fiscal Policy Advisor, DPHHS	Completed
Finding #2-26	84.126	The Disability Services Division will establish a written procedure detailing the preparation and review of the RSA-2 report. Future reports will be prepared and reviewed by two separate employees prior to submission. The department will strengthen the hospital repayment processes to comply with the administrative rule. The related written procedures will be completed by December 31, 2005.	Marie Matthews, Fiscal Policy Advisor, DPHHS	December 31, 2005

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-27	84.126	The DPHHS will strengthen the prevention and detection procedures to ensure all payroll costs are charged to the correct federal year.	Marie Matthews, Fiscal Policy Advisor, DPHHS	November 30, 2005
Finding #2-28	Various, R&D Cluster	University research administration personnel will modify procedures to ensure compliance with applicable federal regulations. Personnel will implement a subrecipient monitoring database and revised procedures by December 31, 2005.	M. Weer, Grant Accounting Manager, UM Missoula	December 30, 2005
Finding #2-29	Various, R&D Cluster	Current procedures do notify Principal Investigator's (PI) of their technical and performance reporting requirement. ORSP also conducts training where this requirement is emphasized. The Research Office will notify all PI's of the audit finding and stress the importance of PIs' meeting their reporting requirements on time.	C. Carlson Associate Vice President for Research, UM Missoula	September 30, 2005
Finding #2-30	Various, R&D Cluster	MSU Bozeman will endeavor to make grant closures in compliance with university policy and grantor guidelines.	Leslie Schmidt, MSU Bozeman Grants and Contracts	Completed and Ongoing
Finding #2-31	14.239	The HOME Program currently requires all of its grantees to conduct debarment checks prior to entering construction, architecture, engineering or consulting contracts in order to fulfill this requirement. This same procedure will now be implemented to conduct debarment checks on cities, towns, counties and Community Housing Development organizations, prior to the Department entering contracts with those entities.	Maureen Martin, Bureau Chief of the Housing Assistance Bureau, Dept. of Commerce	The Department will have this process in place for the next round of funding in the spring of 2006, no later than July 1, 2006.

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-32	14.228	The Montana CDBG Program is responsible for maintaining five different reporting systems, primarily to meet the requirements of the US Department of Housing and Urban Development (HUD). The complexity and inherent duplication involved in the multiple reporting systems invites the problems identified in the audit. The CDBG program is creating an electronic system linked to the accounting system (SABHRS) to automatically collect the PER data as opposed to the manual system currently used. The CDBG program hopes to have the electronic system in place by June 30, 2006.	Dave Cole, Administrator, Community Development Division, Dept. of Commerce	June 30, 2006
Finding #2-33	Various	The Office of Public Instruction (OPI) policy requires two levels of written supervisory approval before an employee travels out-of-state, which allows them to review and determine the cost effectiveness of the travel plans beforehand. The office will centralize documentation so the claims are easier for auditors to verify and will closely monitor travel expenditures to ensure compliance.	Joan Anderson, Assistant Superintendent Department of Operations, OPI	November 1, 2005
Finding #2-34	84.027, 84.323, 84.348, 10.553, 10.555, 10.559	Auditors informed staff of a report that is available from the state accounting system, and it will be used to determine non-school subrecipients subject to audit monitoring.	Joan Anderson, Assistant Superintendent Department of Operations, OPI	November 1, 2005
Finding #2-35	84.010, 84.027, 84.367, 10.555	The FY 2005 CMIA agreement was finally amended in September 2005 by the Department of Administration. The final agreement more closely reflects the procedures staff thought were already effective during FY 2005 and had been using for cash draws during FY 2005. Staff has worked with the Department of Administration to ensure our methods used for FY 2006 adhere to the current agreement related to cash management for CMIA programs.	Joan Anderson, Assistant Superintendent Department of Operations, OPI	November 1, 2005

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-36	84.186, 84.298, 84.352, 84.367	Staff will monitor the list of suspended and debarred parties prior to disbursing funds.	Nancy Coopersmith, Assistant Superintendent Department of Education Services, OPI	November 1, 2005
Finding #2-37	20.600, 20.602, 20.603, 20.604, 20.605	A) The Montana Department of Transportation (MDT) will continue its efforts in developing and implementing control procedures to ensure compliance. B) The department will document support for match claimed.	Clayton McEravy, Accounting Services Bureau (ASB), Priscilla Sinclair, Highway Traffic Safety (HTS)	June 30, 2005 January 1, 2006
Finding #2-38	20.205	MDT finalized, in September 2005, the supplemental specifications regarding subcontracts to ensure compliance with federal Davis-Bacon Act provisions	Mark Wissinger, Const. Bureau DOT	Sept. 30, 2005
Finding #2-39	20.205	MDT Accounting Services Bureau and Highway Traffic Safety Program will establish controls to ensure timely billing. However due to the restricted capabilities of their old cost accounting and billing systems they are unable to improve the timing of our final month end billing. MDT is currently updating the programming of these systems to Oracle. Once this is accomplished they will work to improve the timing of our final month end billing. Until then they will be working with the Department of Administration regarding our CMIA agreement and make appropriate changes.	Clayton McEravy, Accounting Services Bureau, Priscilla Sinclair, Highway Traffic Safety, MDT	June 30, 2006

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-40	20.205, 20.607, 20.608	MDT developed a plan in August 2005 and began implementing additional mitigating internal control procedures by computing the rates earlier, implementing a more formalized review process, and establishing a rate verification procedure.	Gordon McGaw, Accct. Serv. Bur. MDT	Jan. 1, 2006
Finding #2-41	Various	The MDT Accounting Services Bureau with FHWA and DOA is reviewing the propriety of rate calculations to determine necessary changes. Also note that the previous indirect cost rates and the development processes were reviewed and approved by the Federal Highway Administration.	Gordon McGaw, Acct. Serv. Bur. MDT	April 30, 2006
Finding #2-42	97.004, 97.042, 97.053, 97.067	Military Affairs will conduct the subreceipient monitoring activities specified in the plan. A person has been hired to do this monitoring and expects to start the activities before the end of December.	Dan McGowan, Administrator, Disaster and Emergency Services	Ongoing
Finding #2-43	17.207, 17.225	In state fiscal years 2004 and 2005, the Department of Labor and Industry (DOLI) consulted with Montana Department of Administration (D of A) staff, resulting in amendments to the FY 2005 and FY 2006 Treasury Agreements that reflect more appropriate draw patterns. The department will continue to work with D of A to ensure the department and state can comply with the terms of future CMIA agreements.	Bernadine Warren, Chief, Fiscal Support Bureau, DOLI	Corrected as of September 2005
Finding #2-44	17.207	The DOLI has instituted periodic training to all department personnel who either approve purchases, or actually make the purchases, in order to prevent future violations of department and state purchasing regulations. The department has created monitoring spreadsheets that help identify purchasing limitations in contracts, and is working with the Montana Department of Administration to create a database query that will identify potential violations of purchasing regulation. Training of all department purchasing staff was completed by February 2004. Since then, the department conducts bi-annual training of all purchasing staff. The contract monitoring spreadsheet is completed, and the database query should be completed by June 2006.	Bernadine Warren, Chief, Fiscal Support Bureau DOLI	June 2006

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-45	66.458, 66.468	All reports are current except for the FY 2004 & FY 2005 reports for both programs which are being prepared now. DEQ has requested and received a documented extension to December 31, 2005 for submission of these reports. The person responsible for preparing these reports will dedicate time each September to ensure future submissions are timely.	Gary Hamel, DEQ Budget Manager	December 31, 2005
Finding #2-46	Various	The Department of Administration (DOA) will review its policies and procedures to ensure proper documentation is maintained, the interest liability calculations support the agreement and changes properly communicated to the federal government.	Paul Christofferson Admin. Fin. Serv. Div.	2005 CMIA Agreement Amended to reflected changes 9/21/05. Written procedures will be revised during January 2006.
Finding #2-47	15.605, 15.611	Fish Wildlife and Parks (FWP) purchasing staff has added "check for suspended or debarred contractors" to the purchasing checklist.	Donna Aldrich, Property Section Supervisor	Complete
Finding #2-48	Various	FWP will require the grant accountant to maintain documentation supporting the CFDA numbers and reported amounts. FWP will also require their senior accountant to review the dollar amounts reported on the SEFA to ensure the accuracy of the information reported.	Margie Gilbert, Senior Accountant	June 30, 2006
Finding #2-49	15.611	FWP will ensure claims are paid according to proper contract procurement procedures. FWP will include in the next rewrite of its purchasing manual the fact that the employee who signs the contract is responsible to ensure that the terms of the contract are followed. FWP will include this as a Management Team meeting agenda item as well.	Donna Aldrich, Property Section Supervisor	June 30, 2006

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Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-50	15.605, 15.611, 15.615, 10.676	FWP will require the grant accountant to maintain supporting documentation with each financial report and that the senior accountant review and approve all financial reports prior to submission.	Margie Gilbert, Senior Accountant	June 30, 2006
Finding #2-51	Various	As of July 1, 2005, FWP's programs are no longer included in the State's CMIA agreement. Since this was also an issue with our recently completed federal audit, FWP will work the US Fish and Wildlife agency to ensure that federal cash management regulations are followed.	David Clark-Snustad, Accounting & Property Bureau Chief	June 30, 2006
Finding #2-52	Various	The Department of Administration will review its policies and procedures to ensure compliance with federal indirect cost requirements.	Paul Christofferson Admin. Fin. Serv. Div.	Procedures will be completed by February 2006
Finding #2-53	10.025, 10.162, 10.475, 97.004	The Department of Livestock will apply indirect charge rates from federal meat inspection funds as operational costs under the "general" expenditure category (62889) rather than personal services in the Central Service Division. The Department will process the necessary budget documents to properly account for this activity.	George Harris, Administrator Central Services Division	June 30, 2005

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2005

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
	VARIOUS FEDERAL AGENCIES						
Various	Food Stamps, WIC, National School Lunch among others 10.551, 10.561, 10.557,10.555, 10.567, 84.126, 93.044, 93.045, 93.558, 93.563, 93.568, 93.575, 93.596, 93.658, 93.667, 93.775, 93.777, 93.778, 93.959, 93.767, 96.001	2-48	Reconciling data processing subsystems to the primary accounting system.	N/A	1	00-01	
Various	Research and Development Cluster	2-29	Not liquidating all obligations incurred under an award within 90 calendar days as required by OMB Circular A-110	N/A	2	02-03	MSU Office of Sponsored Programs has made grant closures a priority and this continues to be an ongoing commitment.
Various	Research and Development Cluster	2-30	Not following own internal control procedures	N/A	1	02-03	
	AGRICULTURE						
10.557	Special Supplemental Nutrition Programs for Women, Infants, and Children (WIC)	2-1	Follow-up procedures on WIC vouchers on edit report.	N/A	2	00-01	Expected completion date 12/31/05
10.557	Special Supplemental Nutrition Programs for Women, Infants, and Children (WIC)	2-14	Not actively monitoring local agencies that administer WIC funds	N/A	2	02-03	
10.557	Special Supplemental Nutrition Programs for Women, Infants, and Children (WIC)	2-15	Not properly accounting for WIC vouchers as either issued or voided	N/A	2	02-03	
10.557	Special Supplemental Nutrition Programs for Women, Infants, and Children (WIC)	2-16	Ensuring that WIC recipients do not receive benefits more than once a month	N/A	2	02-03	

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is signficantly different than reported.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
10.664	Cooperative Forestry Assistance	2-35	Minimizing the time between transfer of funds from the U.S. Treasury and disbursements by the DNRC	N/A	2	02-03	
	DEPARTMENT OF DEFENSE						
Various	Military Construction National Guard 12.400, National Guard Military Operations and Maintenance Projects 12.401	2-9	CMIA Compliance	$55,000	1	02-03	
	DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Various	Home Investment Partnership Program 14.239, Section 8 Housing Choice Vouchers 14.871, Section 8 Housing Choice Vouchers 14.855 & 14.857	2-5	Not having adequate controls related to reviewing the allowablity of administrative costs	N/A	1	00-01	
14.239	Home Investment Partnership Program	2-6	Not ensuring that program income was properly spent by sub recipients	N/A	1	00-01	
Various	Section 8 Project-based Cluster 14.856 & 14.195	2-32	Errors in calculating payments for vacant and tenant damage claims.	$1,117	1	02-03	
	U..S DEPARMENT OF INTERIOR						
Various	Sport Fish Restoration 15.605, Wildlife Restoration 15.611	2-1	Following consistent policies, regulations and procedures of the state.	$82,200	1	02-03	
	U.S. DEPARTMENT OF LABOR						
Various	Employment Services Cluster 17.207,17.801,17.804 Unemployment Insurance 17.225	2-4	Need to improve controls over fixed assets	N/A	1	02-03	

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
17.225	Unemployment Insurance	2-5	Not submitting the quarterly ETA 227 report	N/A	1	02-03	
Various	Employment Services Cluster 17.207, Unemployment Insurance 17.225	2-6	Internal service fund balances not at a reasonable level	$57,000	1	02-03	
Various	Employment Services Cluster 17.207, Unemployment Insurance 17.225	2-7	Not following CMIA agreement	N/A	1	02-03	
17.225	Unemployment Insurance	2-11	Untimely preparation of the ETA 581 report	N/A	1	02-03	Completed by Department of Revenue (DOR). The administration of UI transferred to Department of Labor and Industry (DOLI) on July 2004.
17.225	Unemployment Insurance	2-12	Not properly calculating experience factors from previous employers to successor employers	N/A	1	02-03	Completed by DOR. The administration of UI transferred to DOLI July 2004. Data in POINTS reconciled, penalty rates reviewed and rate appeals monitored.
	U.S. DEPARTMENT OF TRANSPORTATION						
20.205	Highway Planning & Construction	9-1, 6-1, 2-18	Inadequate sub recipient monitoring procedures	N/A	1	96-97, 98-99, 00-01	
20.205	Highway Planning and Construction	2-33	Inadequate control system in monitoring compliance with Davis Bacon Act	$24,737	2	02-03	MDT finalized the Supplemental specifications regarding subcontracts to ensure compliance with federal Davis-Bacon Act provisions in September 2005 to complete this recommendation.

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
	U.S. ENVIRONMENTAL PROTECTION AGENCY						
Various	Capitalization Grants for State Revolving Funds 66.458 Capitalization Grants for Drinking Water State Revolving Fund 66.468	2-8	DEQ did not submit any federal cash transactions reports	N/A	2	00-01	The Consolidated Federal Financial Report referred to in DEQ's previous comments was not approved to be a substitute for the SF 272 Federal Cash Transaction report. DEQ has been processing delinquent SF 272s since that decision but is not yet current.
Various	Capitalization Grants for Clean Water State Revolving Funds 66.458, Capitalization Grants for Drinking Water State Revolving Funds 66.468	2-2	Not equitably allocating leave pools	$46,652 and $56,213 in FY 00-01 and FY 01-02 respectively	1	02-03	
Various	Capitalization Grants for Clean Water State Revolving Funds 66.458, Capitalization Grants for Drinking Water State Revolving Funds 66.468	2-3	Not filing federal cash transaction reports	N/A	3	02-03	The Consolidated Federal Financial Report referred to in DEQ's previous comments was not approved to be a substitute for the SF 272 Federal Cash Transaction report. DEQ has been processing delinquent SF 272s since that decision but is not yet current.
Various	Capitalization Grants for Clean Water State Revolving Funds 66.458, Capitalization Grants for Drinking Water State Revolving Funds 66.468	2-34	Not having an annual financial and compliance audit	N/A	1	02-03	

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
	U.S. DEPARTMENT OF EDUCATION						
84.011	Migrant Education - Basic State Grant Program	2-10	Not following state statutes related to "private interest" for state employees	$478,271	1	02-03	The Office of Public Instruction's (OPI) legal counsel reviews all employees' memberships to determine whether there is a conflict of interest. The OPI cabinet is also in the final stages of adopting a Conflict of Interest policy for the agency.
Various	Research and Development Cluster	2-13	Not adequately supporting leave pool rates	$163,503	1	00-01	Leave rates approved by U.S. Dept of Health and Human Services in December 2002.
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2-17	Errors in preparation of the RSA - 2 Program Cost Report	N/A	2	02-03	
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2-18	Not appropriately charging the correct period for personal services costs.	$6,568	2	02-03	
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	2-19	Providing services to individuals who did not meet financial eligibilty criteria	$12,264	1	02-03	
Various	Student Financial Aid Cluster 84.007, 84.033, 84.038,84.063, 84.268,93.364, 93.925,	2-28	Improper calculation of student aid that must be returned by students that withdrawal	$1,800	1	02-03	
Various	Financial Aid Cluster, 84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 93.364, 93.925	2-31	Error in the Fiscal Operations and Application to Participate (FISAP) report	N/A	1	02-03	

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
U.S. DEPARTEMENT OF HEALTH AND HUMAN SERVICES							
93.563	Child Support Enforcement	2-32	Non interfacing between the two department computer systems	N/A	1	00-01	
93.658	Foster Care Title IV-E	10-14	Inadequate policies and procedures to ensure timely reconciliations between trust accounts and accounting records.	N/A	1	98-99	
93.775	State Medicaid Fraud Control Units	2-38, 2-8	Inconsistent cash draws	N/A	1	00-01, 02-03	
93.959	Block Grant for Prevention and Treatment of Substance Abuse (SAPT)	2-20	Not meeting maintenance of effort	$268,563	1	02-03	
93.959	Block Grant for Prevention and Treatment of Substance Abuse (SAPT)	2-21	Not spending at least 20 percent on prevention activities	$724,004	1	02-03	
93.568	Low Income Home Energy Assistance Program (LIHEAP)	2-22	Errors in compiling the unobligated balances in the annual financial status report	N/A	1	02-03	
93.658	Foster Care - Title IV-E	2-23	Not following CMIA agreement related to fund transfers to the Adoption Assistance Program	N/A	1	02-03	
93.658	Foster Care - Title IV-E	2-24	Not following CMIA agreement related to draws for the Foster Care program	N/A	1	02-03	

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FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2005

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.658	Foster Care - Title IV-E	2-25	Not properly allocating out administrative costs to the Foster Care and Adoption Program	N/A	1	02-03	
93.563	Child Support Enforcement	2-26	Computer systems, including the state's accounting system not reconciling to each other	N/A	1	02-03	
Various	Child Care Cluster 93.575, 93.596	2-27	No on-site monitoring of local agencies that adminster child care funds	N/A	1	02-03	

Category of Corrective Action Taken:

1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is signficantly different than reported.